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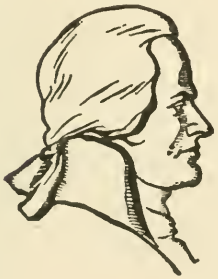

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FOREIGN TRADE AND SHIPPING

BY

J. ANTON DE HAAS, PH.D.

Professor of Foreign Trade, University of Washington

MODERN BUSINESS

VOLUME 15

ALEXANDER HAMILTON INSTITUTE

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PREFACE

The last four years have given to the people of the United States what they formerly had only in a small degree, a world outlook. Foreign trade is not to the same extent as formerly a thing remote, because as never before our people have begun to take part in the economic life of the world at large, since they found themselves forced to enter the struggle for the world's freedom.

Tho the military struggle is over, America's future will be safe only to the degree in which its people carry into their peace labors the same devotion, ideals and cooperative spirit which marked their war-time sacrifices.

The world expects great things of America. It entered the war for the sake of an ideal. May America's foreign trade expansion be similarly actuated by more than the desire for gain, or the will to conquer. May it become a potent force in spreading American ideals of justice and fair dealing.

Upon the exporters and their representatives rests a great responsibility. They have it in their power to strengthen or to destroy the high esteem in which America is now held abroad.

I earnestly hope that these pages may contribute

their share in awakening an interest in foreign trade and may lead some to devote their lives to this most fascinating field of activity.

J. Anton de Haas.

Seattle Washington.

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PART I

FOREIGN TRADE

FOREIGN TRADE AND SHIPPING

CHAPTER I

RELATION OF FOREIGN TRADE TO DOMESTIC BUSINESS

1. *Decision to enter foreign trade must be based on careful analysis.*—The American business man has sometimes been accused of shortsightedness and lack of enterprise for having allowed English and German manufacturers to attain a dominant position in the markets of the world without a serious struggle on his part. Especially has he been blamed for his failure to develop more fully the markets of Latin America, towards which it would seem, on account of their geographic location, he should have directed his best efforts. The critics sometimes talk in terms of the business profits sacrificed by this neglect and sometimes in terms of patriotism, as if to imply that national pride affords a sound foundation for business policy.

Much of this literature of discontent finds its inspiration in misinformation and a lack of analysis, and overlooks the fact that the neglect of profitable fields of commerce may under certain circumstances be justified. The reason why the American business man

has paid so little attention to foreign markets is that he has not had to do so. He has been too busy keeping pace with the enormous growth of the domestic demand. He has been too prosperous to care about the benefits to be derived from foreign trade.

What foreign trade did develop was either in raw materials, or else frequently, of an accidental character designed to serve as a means for the unloading of a temporary surplus. The market for raw materials requires no great amount of development. To a large extent such products sell themselves. Manufacturers' agents scour the earth for sources of supply. Little or no selling organization and practically no selling ability is required to trade them off. In respect to manufactured products, however, the situation is different. The market here is subject to the severest competition. In weighing the relative advantages and disadvantages of foreign trade we shall, therefore, confine ourselves to the trade in manufactured products.

No business man can be expected, it is plain, to enter a new field of activity until he is certain that the benefits in doing so will outweigh the costs. It is possible to make out a convincing case for patriotism. We might easily prove that the welfare of the nation is promoted by foreign trade. But few men could afford to engage in exporting or importing for the good or glory of the country alone. Profits for the individual are the only argument that carries conviction or assures permanence of service.

2. *Foreign trade requires investment.*—From the outset it must be understood that the developing of foreign markets is slow and expensive work. The manufacturer who has decided to enter them must be prepared to make a large investment and wait patiently for the returns.

It is frequently necessary, when placing American products on foreign markets, to create the realization of the need for them. Many articles regarded at home as necessaries are either wholly unknown abroad, or looked upon as luxuries. Take for example the many time- and labor-saving devices available to the American housewife. It seems strange that they should not take the European markets by storm. But the European housewife, who is sufficiently well to do to be able to buy them, has one or more servants, and she is not very much interested in making a fairly large investment for the purpose of saving a servant's time. Idleness, she would say, is the mother of evil; why place temptation in the way of the servant when she can be kept out of mischief by using the old methods?

It takes careful analysis of the nature of the market, careful planning of sales and advertising campaigns and a patient development of the desire for the products in question before a return on the investment can be expected. After the demand has been created, constant vigilance and sales cultivation are required to hold the market, to prevent local and other foreign competitors from reaping the fruits of the initial,

heavy outlay. The danger of cheaper substitutes and infringements on patent rights is a constant cause of anxiety.

The personnel of the selling force must be high grade. Many firms make a capital mistake in disregarding this. It is impossible to exaggerate the importance of it. The representative abroad is no less than a business ambassador. He cannot possess too much general and professional education. Only a man of the world with sound business knowledge can successfully compete with the highly trained representatives of German and English firms. Naturally, such men are difficult to secure and expensive to keep. They must live in good hotels, dress well and entertain generously. It must not be forgotten that they constitute the personal link between the customer and the house. The house is judged mainly by the appearance, manners and air of prosperity of those who represent it. Parsimony in this respect is the worst kind of economy.

If to these heavy charges are added the cost of travel to and from the foreign country, the loss of the employe's time during the voyages, the expense of cable message and of postage, it becomes apparent that the foreign field should not be entered without a due appreciation of its financial demands.

3. *Foreign trade requires specialized knowledge.*— In most European countries, foreign trade is the goal of all ambitious business men. There the small man of moderate means and narrow horizon may be sat-

isfied to confine his business to the home market, but the bigger man is not satisfied until his letterhead is known in the four corners of the world. As a youth he prepared for this consummation. He studied languages, commercial geography and the technique of international commerce in the schools. He served years of apprenticeship at ridiculously low salaries with exporting firms at home and abroad. In short, he prepared for foreign trade as another would for the profession of law or medicine.

In the United States until recently, commercial education has been wholly inadequate. Foreign travelers are astonished at the hap-hazard, slipshod way in which business transactions are too often carried on in this country. The need for better trained men in domestic business, however, is being felt more widely, and this need is ever more urgent in our foreign trade. The school of experience is too expensive an institution.

To meet the newly felt need, many of the larger high schools and universities are developing courses. They are still in the formative period and in thoroness and scope are not to be compared with similar courses in the commercial schools of Holland, France, Belgium or Germany. But they represent steps in the right direction.

A number of commissions are also at work considering the kind of instruction needed for domestic and foreign business. The National Commission for the Reorganization of Secondary Education has, thru

its committee on business education, outlined a curriculum for secondary schools. Similar bodies are at work to bring a certain degree of uniformity into the curricula of institutions of college and university standing. Chambers of commerce have established such courses, those of Cleveland and New Orleans being among them.

The American Manufacturers' Export Association, in 1918, passed a resolution recommending

> that the Committee of Fifteen on Educational Preparation for Foreign Trade Service, appointed by the Commissioner of Education and attached to the United States Bureau of Education and other Governmental agencies, be empowered by act of Congress, with specific appropriations of money for that purpose, to investigate for Congress the problem of training for foreign trade service and to report recommendations to Congress of the national educational policy in this respect which shall indicate the most efficient ways and means of realizing it.

The resolution shows the new attitude of American business men towards commercial education.

It cannot be impressed too strongly upon the readers of the present volume that the completion of this Text is but the first step upon the road. In order to qualify as a specialist in foreign trade a thoro study of economic resources, commercial geography, ocean transportation, marine insurance, international law and allied branches must follow this introductory work. Knowledge of a foreign language is highly desirable. But if the study is not under-

taken until late in life it is open to question whether the time required to secure even a moderate command of the language cannot be better spent in studying other subjects equally as vital as foreign trade.

4. *Foreign trade profitable.*—If, notwithstanding the exacting requirements and the obstacles mentioned, business men, nevertheless, do enter the foreign field, it must be because the rewards are in some measure proportionate to the outlay necessitated. This is indeed the case. Thru foreign trade, countries with very inadequate natural resources have accumulated great wealth.

Holland furnishes a case in point. Essentially a farming country, its traders have for centuries bought and sold in the world's markets and carried the goods belonging to traders of other nationalities. During the sixteenth and seventeenth centuries, Holland was the most powerful nation on earth. The surplus capital that accumulated in the coffers of the Dutch traders was drawn upon by the governments of England, France, Spain and by many of the small German and Italian states, to bolster up their shaky exchequers. Tho that little country has not been able to maintain its former commanding position in international trade and finance, its present prosperity is still largely based upon its foreign business.

The economic power of Great Britain today is derived in no small degree from the world-wide relations established by her merchants. It is estimated that her yearly income from foreign investments amounts

to no less than $700,000,000. In addition to this huge sum, the world pays tribute to the British merchants and bankers in the form of profits realized in foreign transactions, for foreign freight carried in British bottoms, for financing foreign customers and for handling their collection items. The amount of the annual freight bill alone is estimated at $500,000,000.

All this, while of great interest, is not an imperative summons to the business man to enter the foreign field. There are more important recommendations. The most important is that foreign trade strengthens the competitive position of the merchant in the domestic market.

5. *Commercial and non-commercial risks.*—In carrying on a business transaction the merchant faces many risks. Some of these are commercial. The merchant may make a wrong estimate of the price at which the goods will sell. He may be unduly optimistic in regard to the amount of an article which the market will be able to absorb. If he makes any profits he makes them because of having guessed correctly. These uncertainties are a legitimate part of "the game."

Other risks are non-commercial and arise from factors beyond the control of the merchant. Typical non-commercial risks are the danger of fire, storms, water, theft and as in the recent war an attack by submarine pirates. No amount of foresight can guard against these dangers.

Fortunately, most of the non-commercial risks are

insurable. This means that they may be reduced to a definite payment, a premium known in advance, which may be included in the cost of a transaction. One may insure his goods against fire, theft, damage by sea, or losses resulting from the dangers of war. The risk involved in domestic credit transactions may also be covered by insurance.

Nevertheless, a number of non-commercial risks remain against which insurance is impossible. Unforeseen factors may bring about a depression which paralyzes the market. War may be declared, banks may fail, a political upheaval may cause consumers to restrict their purchases. Or, again, some sudden change in fashion may destroy the value of large stocks of merchandise, or destroy a large capital investment. No one, for example, could have foreseen that the bicycle, constantly gaining in popularity for commercial and pleasure uses, would as by a wave of a magic wand almost disappear from the streets of our cities.

6. *Foreign demand an insurance against risks.*— An active foreign demand, tho not offering absolute protection against these risks, softens the effect of these catastrophes. It is not usual for a depression to be felt in all countries to the same extent. If times are hard in the United States, conditions may be favorable in the Argentine, or in the markets of South Africa. Thus the foreign demand may frequently absorb the surplus made available by a weak market at home. Even when the foreign customers cannot

absorb the entire surplus, the effect of the depression is minimized by as much as they do take.

It is one of the happy dispensations of foreign trade that firms are frequently able to continue selling in foreign markets goods which are no longer acceptable to the American trade. Sometimes the foreign consumer is not aware of the fact that the style has changed. It is difficult to follow changes in distant markets, and the firms selling the products have no interest in informing the consumers. But even many times the people are indifferent to the shift of style, they are loath to change. Few nationalities are so constantly looking for changes, so willing to take up with fads, as the Americans. The peoples of the older countries are more conservative. Once an article has proven its worth they do not care to experiment. They admire Yankee ingenuity, but prefer to await the verdict of time concerning the practical value of a new invention. Thus the double keyboard typewriter is still in general use in European offices. The young clerk there still starts his business career by turning the old-fashioned copy press. The bicycle is used in the countries of Western Europe for business as well as pleasure.

Hence the slowly changing demand abroad enables the American exporting firm to temper the more or less sudden changes in the domestic market and to do so gradually, and without great, if any, loss of investment. Machinery and partly finished products need

not always be scrapped for they can perhaps be used up in supplying the foreign consumer.

7. *Seasonal demands offset each other.*—Many products are subject to seasonal demand. Such goods are produced at relatively high cost. Accordingly, unless some other provision is made for its use, the machinery needed for a full-capacity output will for months stand idle either wholly or in part. This is expensive. On the other hand where the factory is kept running thruout the year, a large stock of finished goods is accumulated during the slack season that may exceed the demand coming later. This again is expensive.

Where an active foreign market is available, the situation is much more favorable. When it is winter in the United States, summer dresses and straw hats are in demand in the Southern hemisphere. A factory supplying both North and South America need never stand idle. Less risk attends its enlargement. With the demand extending thru the year, it is not necessary to accumulate large stocks of finished goods. The demand can be largely, if not wholly, supplied as it arises.

8. *Dumping as a business policy.*—Where the domestic market is limited in its power to absorb certain goods the development of foreign markets may present itself as the only means of securing the advantages of large scale production. In either case, it improves his competitive position at home. He may

sell in the foreign market at cost and take his profit in the home market. Even if he has to sell there at a figure below cost he may still make a larger total profit than before his expansion. This selling in foreign markets at a price below the domestic market price and sometimes even below cost, is called "dumping."

Foreign dumping by American manufacturers is not necessarily at the expense of the domestic consumer. He may get his products cheaper than he could have bought them before as a result of the large scale production made possible by it, tho to be sure not so cheaply as the foreigner.

In most discussions of dumping it seems to be assumed that such a policy must, in the nature of the case, be temporary inasmuch as no sane manufacturer could be expected in the long run to sell below cost. It should be clear, however, from what has been said that dumping may be carried on for an indefinite period.

9. *Educational value of foreign trade.*—Not the least of the advantages of carrying on an export trade is the broadening effect which a careful study of foreign markets, customs and languages gives. The pleasure and intellectual profit that comes from an understanding of unfamiliar conditions, from the widening of one's horizon, is in itself a compensation for much of the effort expended. The experience gained in foreign lands is also an aid in solving domestic problems. Lastly, foreign trade introduces an element of adventure and romance into the humdrum

of the daily routine, and thus invigorates the staff and promotes cooperation and efficiency.

10. *The character of foreign competition.*—In the foreign markets as at home, price, quality and service constitute the three weapons in the competitive struggle. Speaking in general terms, that firm is certain to conquer the trade in any market which can prove conclusively to the prospective buyer that it excels in supplying these three factors in the largest degree. Where the price is not as favorable as that offered by other firms, especially good quality or superior service may save the day.

11. *Price.*—Price is naturally the strongest selling argument. If then we consider the high wages paid American workmen and the short hours of work, it seems that these place the American manufacturer in a most unfavorable position to compete with the lower wages and longer hours of foreign factories. Yet the fact is that the very industries where labor constitutes a relatively important part of the cost of production have been most successful in meeting foreign competition. The American automobile, typewriter and shoe industries have underbid all rivals. The industrial changes which have taken place in the European countries as a result of the war, involving an increased use of labor-saving machinery and more efficient management, can hardly fail, however, to modify his advantage.

12. *Quality.*—In many cases the superiority of the American product is so well recognized that it will

sell for a higher price than similar articles marketed by firms of other nationalities. This is illustrated by the conditions in the hardware market in Australia and in South America. The lower-priced German articles formerly found buyers, but did not compete with the superior ware of American make.

At the same time quality is not always a sufficient point. Manufacturers of farm implements found that poor quality German machines were more popular with the Russian farmer before the war than the high grade American goods. The reason lay in the fact that the American machinery could not be so readily repaired.

13. *Service.*—In the foregoing example, it was the service that fell short. Service may also take the form of long credits on purchases, of prompt and speedy delivery of orders, of instruction in the use of specialized articles, and of aid in advertising campaigns. A thoro knowledge of the means of rendering superior service is indispensable to the foreign trader. These means include such institutions as banks, transportation companies, branch houses and freight forwarding companies.

If the American foreign trader has not shown the competitive power in overseas markets which his wealth and enterprise would justify, we must attribute it to the absence of these facilities for service. American business in foreign markets has been compelled to compete solely on the basis of price and quality.

14. *Foreign trade should be systematic.*—Many manufacturers turn to foreign markets only in time of stress. From what has been said, it must be evident that such transient activity cannot be expected to meet with success. A foreign market entered in time of need and abandoned when conditions at home resume their normal course may be forever after closed to the merchant guilty of such shortsightedness. The foreign buyer will not readily break with firms which serve him faithfully, and he will hardly give his confidence again to those who have once left him in the lurch.

REVIEW

Why does foreign trade require a large working capital?

Distinguish between commercial and non-commercial risks.

Explain how an established foreign demand may be an aid in stabilizing domestic business.

What subjects should be studied by one anxious to become a specialist in foreign trade?

Under what circumstances does it pay a manufacturer to sell his goods below cost?

What has been the weakness in the competitive position of the American business man dealing in foreign markets?

CHAPTER II

THE NATIONAL ASPECT OF FOREIGN TRADE

1. *Foreign trade a matter of national interest.*—We have thus far considered the importance of foreign trade from the point of view of the individual business man. In this chapter we shall attempt to answer the question why the nation as a whole should be interested in foreign trade.

It is possible to assume two extreme positions in regard to the question. On the one hand it may be urged that each nation should try to become as nearly self-sufficient as possible. On the other hand foreign trade may be looked upon as an end in itself. As is usually the case, the right attitude will most likely be a compromise between the two. In order, however, to appreciate the nature of the problems involved, it will be helpful to consider the extreme positions.

2. *The self-sufficient state.*—In case of a blockade in war a self-sufficient state is without doubt in a more favorable position than a country which is dependent upon other countries for any of its staples. Still, it requires little imagination to see what the inhabitants of a country would sacrifice should they voluntarily forego commercial intercourse with other nations. In

a country of the temperate zone it would mean going without tea, coffee, cocoa, spices, rice, rubber, in short, all the numerous products of the tropics which by this time have passed out of the class of luxuries into that of necessaries.

But this would not be the only sacrifice involved in closing the frontier to importations.

3. *The character of goods exchanged.*—Even assuming that the country in question has within its borders all the resources and all the technical skill required to make all the goods it needs, still if some goods were more skilfully and more cheaply made abroad, their importation, broadly speaking, would be desirable.

National traits as well as natural resources necessitate differences in production. The practical minded and resourceful Anglo-Saxon has generally excelled in inventions of a mechanical nature. The telegraph, telephone, phonograph, submarine, airplane, steam engine, typewriter; a list of inventions too long to enumerate testify to his ability to master and subdue the forces of nature. The Frenchman, with his well-known love for the perfect, the harmonious and the beautiful, has been long considered the logical person to supply those articles of luxury which are not easily produced in quantity, but require an artist's taste and skill. Other races have shown ability in the elaboration of the inventions of others.

It should be kept in mind that the word "better" has a very elastic meaning in trade. Excepting raw

products and food products, and even these to some extent, much importation takes place not to supply cheaper goods or more useful goods, but to satisfy a demand for exclusiveness. England imports American cloth, France imports English and American cloth, while America imports French and English cloth. In the retail shops of France, England and America, the exclusiveness and general superiority of the imported article is urged upon the purchaser. "Exclusive imported patterns" is a catch phrase in every country of the world. It does not pay to "carry coals to Newcastle" because coal is a raw product. It does pay to import automobiles into America, tho such cars are extremely expensive in first cost and may give much trouble to repair. Their very expensiveness makes them attractive.

4. *The international division of labor.*—From what has been said, there can be little doubt that the greatest economic efficiency can be obtained only when each nation produces almost exclusively the goods it can produce most economically and when every individual within each nation is engaged at tasks for which he is by nature and training most adapted. This specialization by nations is sometimes referred to as an international division of labor. Each country may thus be said to make its contribution to the international stock of goods. Producing the goods in which it excels most, it exchanges the surplus which remains after home demands are satisfied for those goods in the production of which other nations are

more efficient. Such international cooperation, it is represented, moreover, will so knit the nations together and make them inter-dependent that conflicts will in time become economically impossible.

5. *National aspirations as a factor.*—One important element has been left out in this picture. No mention has been made of national aspirations, of the ambitions for national development which form such an important factor in directing the destinies of nations. The international division of labor might be taken to mean that some countries would develop as industrial nations and others would never leave the agricultural status. This is, of course, wholly impossible.

But even as a description of conditions this international division of labor is not true to fact. No such harmonious division of labor exists. Nations are continually attempting, and in many cases successfully, to wipe out the limitations of specialization and are undertaking production for which their resources and experience do not logically fit them. The truth is that international competitive strength is increasingly determined by organization. Not national resources but superior management generally count for most in the world struggle.

6. *Industry as an impetus to foreign trade.*—The principle of dumping as a business policy, described in the last chapter, should make it clear that foreign trade among the more developed nations tends to become a scramble for markets in which the driving

force is the machine capacity. The process swings in a circle: sell more to produce cheaper in order to sell more, etc., etc. The process is not necessarily a vicious one. Industry can be so diversified as to meet the world's growing demands.

But there is another, a short-sighted view to take of the process. Germany took and held to it in the half century preceding the Great War. Caprivi once said with prophetic vision: "The time is not far off that Germany will have to export goods or men." And she could not conceive the wisdom of letting men go. Her formidable competition in the world markets was the result of her conception of it as a social and economic necessity, a necessity resulting from over-production and over-population at home. As the industry and along with it the foreign trade of the empire developed, the emigration fell off heavily, even tho the population nearly doubled. The growth was largely urban, the food producing population in the meantime remaining about stationary.

Tho the German traders succeeded in placing their goods in all the markets of the world, great uneasiness always existed among them. It always seemed to them that Germany was walking on thin ice. The closing of any of the markets to German products would naturally spell ruin to many industries and would mean unemployment at home. The possibility of this always confronted them. With it went always the need for still greater expansion. New

markets must be found and the existing markets securely safeguarded.

7. *Raw materials.*—As a nation develops industrially it becomes necessary to go outside its borders for some at least of the raw materials it needs for its factories. Foreign trade, therefore, after it reaches a certain stage of development, means the selling of finished or partly finished goods and also the buying of raw materials.

These raw materials and foodstuffs can as a rule be obtained only in countries less highly developed industrially. The products of the mills and factories are, therefore, exchanged in these countries for the ores, the wheat and the coal needed at home. The exchange is determined, like any other business transaction, by relative prices. The goods are sold where they will bring the best return expressed in raw materials and foodstuffs. This market need not always be an undeveloped country. Holland, Switzerland and France received coal from Germany in exchange for their manufactured products. Many highly developed commercial nations are the centers of distribution for raw products gathered from afar. Antwerp and London are the markets for ivory and rubber, Bordeaux is a market for coffee. Cotton is sold in the exchanges of Liverpool, Hamburg and Rotterdam. From many points of view, trade in raw materials is no less important, therefore, than trade in manufactured goods.

8. *Colonial possessions.*—A nation which has a monopolistic control over an essential raw product can throttle the progress and threaten the very existence of the industrial nations dependent upon this product for their factories. Thru the valorization scheme in Brazil, where 75 per cent of the world's coffee is grown, the price of coffee in all countries has been raised. Should any country obtain a corresponding control over the rubber, iron or tin output, the other nations would be at its mercy. It may be remembered with what consternation the news was received in the United States that Holland had put an embargo upon the exportation of tin. Had the news been correct, the United States' preparation for war would have been seriously retarded.

In the past, when a country has been lacking in certain important and essential new products, it has sought to secure for itself a safe source of supply by obtaining control of colonies where this raw material is obtainable. A colonial policy is, therefore, closely linked to the foreign trade question. The possession of colonies lies at the bottom of the commercial power of England and Holland. Its colonies once made Spain great.

But colonies are no unmixed blessing. Spain was forced to go to war to defend hers and lost them at last. The people at home, depending entirely upon the easily won riches from oversea, had neglected to develop the resources of the home country, but instead indulged in habits of ease and luxury, which

three centuries of decline have still been unable to overcome. Possession of colonies is useless unless the colonies are well managed and developed, and unless the nation controls the seas. A colonial policy and a strong navy go together. The colonial expansion of Germany, dating from about 1884, went hand in hand with a demand for naval expansion.

9. *Foreign investments.*—Raw materials may be obtained, however, under normal conditions by an exchange of goods with other countries. A certain degree of control may in such case be obtained by undertaking the development of the resources of these countries. This serves a twofold purpose. It increases the amount of available raw material and assures good management. Unless the foreign government interferes with the exploitation of the products, or subjects them to prohibitive export duties, the proprietary interest is assured an ample supply. The oil fields in Mexico are a good example of this. Their development by American and English firms assures operating efficiency. The attitude of the Mexican Government is, however, a serious factor to be reckoned with. An embargo on oil, if it had been imposed during the late war, would have driven the English and American fleets from the ocean.

The development of the resources of foreign countries has other advantages. The machinery, the tools, even the technical staff needed will be supplied from the investing country. The South American mines, managed by English engineers, receive their

mining machinery and narrow-gauge railroad equipment from English firms almost exclusively.

Charles M. Muchnic, vice-president of the American Locomotive Sales Corporation, New York City, testified before the Federal Trade Commission:

> Of the railways in Argentina fully 90 per cent belong to British companies, and it is tacitly understood by the local engineers, as well as by the London boards, that no foreign manufacturer would be allowed to supply equipment for the Argentine railroads—except the British—unless it is a question of urgent need and delivery. These English roads purchase anywhere from 200 to 300 locomotives from England annually.

The Dutch engineers who were called upon to improve the harbors of Chile sent to Holland for the cranes, dredging machinery and floating drydocks. Anyone familiar with the railroads of Europe will have little difficulty in telling who supplied the capital for the many foreign-owned railroads in China: French, Belgian, English and German locomotives and rolling stock advertise the nationality of the financial syndicate.

The practice, started, it is said, by the Germans, has now become fairly general for the financiers supplying funds to foreign governments or private firms to require that they be spent only in purchasing the products of the country supplying the capital. Out of the practice have grown gigantic schemes of international finance. A German syndicate of bankers had undertaken before the war to raise the funds ne-

cessary to build certain harbor improvements in some South American country, with the understanding that only German goods were to be purchased with the funds. The German syndicate then floated the loan in France. The French investors thus supplied the funds by which German firms secured large contracts at such favorable figures that they could afford to undersell French firms in other markets. The German bankers would retain only a small share of the South American development securities, but enough to control the company, by making sure that the majority of the shares were so widely distributed that they could exert little or no influence.

The amount of capital which has been invested by the large industrial nations in foreign lands is considerable. It has been estimated that the British investments before the war amounted to about $17,500,000,000; French investments, $8,000,000,000; and German, $4,000,000,000. The rate of foreign investment of the countries of Western Europe prior to the war was estimated by C. K. Hobson at $1,500,000,000 yearly.

These investments reflect the national character. The investments of the French are largely in government securities. The frugal French peasant or shop-keeper asks for a safe, be it moderate, *rente*. The German investor was more reckless, encouraged no doubt by the phenomenal success of industry at home, aided by powerful industrial and financial combinations and backed by the "mailed fist" of the gov-

ernment. The German investments were mainly in the industrial securities and government securities which did not find a ready market in other countries. The English, on their part, have chosen the development of agricultural and mineral resources of foreign lands. The chief direction of English investments has been Canada, the United States and Argentina, tho Mexico, Brazil, Chile and South Africa were also benefited by English investments.

American investments have been steadily on the increase. It has been estimated that during the ten years prior to 1906, $250,000,000 of American railroad securities were bought back from European investors. The American investments in Canada exceed $227,000,000, while more than $700,000,000 has found its way into Mexico. In the South American and Central American republics some $300,000,000 has been tied up.

10. *The balance of trade.*—Much attention is devoted in discussions of international trade relations to what is called the "balance of trade." A country is said to have a "favorable" balance when it has an excess of exports over imports, that is, appears to be selling more than it buys, while the opposite condition is called an unfavorable balance.

Evidently, if exports mean sales and imports mean purchases, and their statistics represent all that is going on, then indeed a country importing more than it exports is running head over heels in debt and is

heading fast for bankruptcy. Fortunately, the two sets of figures do not tell the whole story.

As has already been stated, considerable sums of money are invested by bankers and private investors in foreign industries. Suppose, for example, that American financiers were to undertake the building of a railroad line in Argentina. This would mean a flow of American capital to that country. Very little of it, however, would be actual money. Railroads, of course, are made up of rails, bridges, cars, locomotives, etc. These will be largely, if not wholly, supplied by manufacturers in the United States. The money, in other words, does not go out of this country, but there is instead a flow of goods to Argentina.

We do not expect a return on this investment for some time. The exports from Argentina will not be immediately increased by the investment. The statistics of the United States will record an increase in exports. Argentina's imports are materially increased for a term of years, and its exports, we saw, have remained the same as before. An unfavorable balance, therefore, has been established. But is not Argentina already better off than before? Does not the railroad increase the national wealth and the general comfort of the people?

Some years later, let us hope, the investment has begun to throw off a net income. The dividends and the interest on the capital invested form a source of

revenue to the American investor. As in the first instance, this transfer of wealth from the Argentine company to the owners in the United States does not take place by the transfer of funds, but rather by the sending of products produced in Argentina, which can be turned into cash here—or the transaction may be a three-cornered one—the products may be shipped to some other country and sold there, the proceeds being used to purchase the goods of that country for shipment to the United States. But whether the returns of the investment reach the United States directly or in a roundabout way the general effect is the same. There has taken place an increase in the exports of Argentina and in the imports of the United States.

A favorable balance may therefore reflect national investments abroad as well as an excess of exports over imports. It may also mean that a debt is being paid, or that dividends are flowing out of the country. An unfavorable balance on the other hand may mean that the country is being assisted in the development of its resources, or that the country is drawing an income from investments previously made.

It is, therefore, futile to consider whether a favorable or an unfavorable balance is the ideal to strive for. A mere comparison of the value of exports with the value of imports tells us nothing of what is actually going on.

11. *The financial balance.*—Of far greater significance would be information as to the financial bal-

ance. Such information is always difficult if not impossible to obtain. Many times we can do little more than guess. We know, for example, that England, which had an unfavorable balance of trade amounting to over $786,500,000 in 1912, was receiving this excess of imports over exports by virtue of loans and investments abroad, freight earnings, charges for marine and fire insurance carried for foreigners by the companies of England, of commissions for the buying of raw products, and of banking charges for the financing of customers of English and foreign sellers.

The shipments of securities which take place constantly in normal times, are not known to the public and do not figure in statistics. The investors in Belgium before the war were buying the mortgage bonds issued by mortgage companies in Northwestern Canada; they were also absorbing many railroad securities issued in the United States and in Asia. But no one could tell with any degree of certainty the amount thus transferred and the figures showing the balance of trade of all the countries concerned gave no indication of it.

12. *The balance of trade of the United States.*— The statistics of imports and exports of the United States show an interesting condition:

Fiscal year	Imports	Exports	Excess of exports
1915	1,674,169,740	2,768,589,340	1,094,419,600
1916	2,197,883,510	4,333,482,885	2,135,599,375
1917	2,659,355,185	6,290,108,394	3,630,693,209
1918	2,945,655,403	5,919,711,371	2,974,055,968

This phenomenal increase in a "favorable balance"

is the direct result of the European War and the large purchases by England and France of war material. These purchases were made possible by American loans granted to these governments. Thru these loans and to a lesser extent thru investments of private individuals in foreign funds, the United States has reached the position of a "creditor" nation. The balance in favor of the United States will in the future be a financial, that is to say, an actual one.

13. *The value of trade statistics.*—Few business men make use of the valuable material that is available in government reports and statistical data. In studying the possibilities of markets about to be entered, a careful analysis of the trade statistics of that country will frequently answer many questions and give a clear picture of the requirements of the market.

The most valuable statistical material relating to foreign trade is published in the United States by the Bureau of Foreign and Domestic Commerce. Two publications are issued, the Monthly Summary of the Foreign Trade and Commerce of the United States and an annual report, The Commerce and Navigation of the United States. The first may be purchased from the Superintendent of Documents at Washington, D. C., for fifteen cents a copy. The second is sold for one dollar. The statistics of imports and exports are given in great detail by articles and by countries. The articles are subdivided into raw materials, food products crude, food products prepared in whole and in part, manufactures serving as a basis

for further manufactures, manufactures ready for consumption, and miscellaneous.

In addition to these official statistics certain large banks in New York prepare for their patrons advance information from data furnished by the custom house of that port.

Information as to the foreign material available to American business men is contained in the various year books, some of which are published officially, others by semi-official or private agencies. The Mexican Yearbook, the Chinese Yearbook, and many others contain, besides statistical information, a wealth of miscellaneous information concerning the government and the commercial conditions of the countries with which they deal. For ready reference the Statesman's Yearbook and the World Almanac may also be found useful. Greater detail can of course be found in the official publications of the various nations.

14. *Statistics unreliable.*—It is necessary to caution against the use of these trade statistics for purposes of comparison between nations. The methods of arriving at the value of imports and exports are far from uniform in the different countries. In the statistics of the United States the value of the imported goods at the port of lading is shown. This same method is followed in the statistics of Canada, Cuba, Mexico, the Philippine Islands and British South America. Other countries express their statistics in terms of the value of the goods in the port of

arrival. This method is followed in Bulgaria, Portugal, Russia, Serbia, Sweden, Turkey, United Kingdom, Brazil, British India, Ceylon, China, Japan, Persia, Siam and New Zealand. In others an arbitrary percentage is added to the value at the port of lading in order to determine the value in the port of arrival. Australia adds 10 per cent to the invoice value to obtain the value in Australian ports. Austria-Hungary, Belgium, Germany, Italy, Norway, Switzerland and Egypt place an official valuation on imports. These official valuations may be quite at variance with the real value of goods. The matter is even more complicated by the fact that some of these countries use different official valuations for each country of origin. France, Roumania and Spain apply the same official valuation to all countries.

Export statistics are subject to similar variations. Since export duties are not frequent and the customs officials show little interest in the gathering of export statistics, these latter are even more unreliable than import figures. The information in regard to the countries of origin or of destination is to be taken as only approximately correct. While goods shipped from New York to Rotterdam may be intended for re-export to Belgium or Russia, there may be nothing in the invoice or the export declaration to show any such intention. In the exports of many countries of Europe are goods which could not possibly have been produced within these countries yet they figure in statistics as exports from those lands. This

is especially the case in some of the South American countries where imported goods which have changed form in some slight way, are henceforth regarded as produced within the country and when re-exported are charged export duties as goods manufactured within the country.

Another difficulty confronts one who attempts to compare imports and exports of specific products of any one country. The figures published by the United States Government are gathered with no attempt to make them comparable. Imports may be given in dollars and pounds, exports in pieces or some other measurement, making accurate coordination impossible.

Trade statistics should, therefore, be used with the greatest care and the conclusions based on them carefully verified. Nevertheless, the fact that it is difficult to arrive at conclusions should not obscure the supreme importance of a study of international trade relations.

REVIEW

What economic causes make for foreign trade?

Why do manufactured products and raw products present distinct problems?

Contrast the principle of the "self-sufficient state" with that of "international division of labor."

Contrast the peaceful picture of "international division of labor" with the "struggle for markets."

How do foreign investments influence the direction of trade?

CHAPTER III

THE MARKET

1. *Careful study of the market necessary.*—Before undertaking the development of the foreign market it is advisable to make a careful study of its possibilities and requirements.

The first step is to determine which of the many markets shall be chosen. The character of the goods to be sold will frequently limit the choice. A manufacturer of Palm Beach cloth will not find buyers in the Northern European countries, while ice skates are not in demand in Central America.

Where the commodities are of more general appeal, it may prove more difficult to determine which market to enter first. Some firms enter several at once. Unless ample capital is available for the venture and a large office force can be maintained, such procedure is not to be recommended. It is better for a firm of moderate capital to develop one market at a time. The problems encountered in each are so many and so varied that attempting to solve them all together amounts to scattering one's energies over too wide a field.

2. *Purchasing power of the market.*—One of the first things to consider is the purchasing power of the

market. National wealth and population taken together afford one index. More suggestive is the per capita income. Of course, neither is wholly reliable. They are to be considered in connection with classes and occupations, density and character of population, whether urban or rural, buying habits, prices, amount of competition, and other factors.

3. *Character of goods required.*—The differences in wealth of the social classes of a country will to a large degree determine the character of goods which the market can absorb. The Ford has established itself as a middle class car in the United States. Tho the sale of cheap cars will be much increased in Europe after the war, no such general use of the automobile can be expected on the Continent, at least, for many years to come. Class distinctions are too sharply drawn in spite of war's leveling. The rich would not use so cheap a car, the middle class is not quite sure that it is not too presuming to affect a private car, and the working people cannot afford one. The expensive car, cycle and motorcycle will continue to control the pleasure vehicle market in most quarters.

The more narrowly the wealth of a country is held the less sale is there for middle class articles. In British India the great market is for extremely cheap articles, but along with that demand is one for a limited quantity of high class articles.

Customs, historical prejudices and religion play an important part in foreign trade. Spain is a large buyer of goods of a religious nature. The sale of

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rosaries, images and other such articles is in the hands of the government. In China articles which bear the required lucky marks and the favorite dragon design are in demand. Suspenders find a better market in Europe than in the belt-wearing United States.

A careful study should be made of the relative prices; those paid for similar articles, and the design and the quality of the articles. It should constantly be borne in mind that in order to sell abroad it is necessary to supply goods that are wanted, in the way they are wanted. Foreign peoples are more set in their preferences than our own. It may be possible to educate them to demand better or, at any rate, different things from what they have been buying but the safest and least expensive way to start in is to sell them what they want and leave the education until later.

4. *Time needed for delivery.*—After the character and quality of the goods that can be sold in a given market have been estimated, other considerations need attention. One of these is the time needed for delivery. If transportation facilities are inadequate, the exporter may find it necessary to establish storehouses abroad to assure quick delivery. If the profit does not permit it, he must find some other way of getting around the difficulty, or stay out of the market.

The distance of the market and the length of time the goods are in transit directly influence costs and prices. Money locked up in goods accumulates in-

terest charges, irrespective of whether the transaction is financed by the buyer, the seller or a bank. This is one of the strongest arguments for an American merchant marine.

5. *Cost of placing goods on the market.*—Transportation charges figure high in the cost of some articles and may even bar them from competition beyond a certain radius. If importing and exporting are done on a large scale it may sometimes be possible to carry such commodities as part of a return cargo at a lower rate than normal. Great Britain's position in foreign trade is in no small measure due to the cheaper inward freight-rates it can demand because of its ability to provide a return cargo of coal. But this is exceptional.

The extent to which long term credit must be allowed to customers is an important factor in the cost of doing business. In dealing with agricultural countries, long credits are unavoidable. Where the capital turnover is rapid, as in industrial nations, low prices and prompt delivery mean more than long credit.

The general credit conditions in the foreign market should be as carefully studied as the individual risk. Some countries are notoriously lax in enforcing contracts at the expense of their own citizens; the foreigner seldom receives fair treatment in the courts. The cost of doing business in such markets is higher than where conditions are more satisfactory.

The credit risk is still further increased if the

country is so sparsely populated as to contain no active markets where goods shipped to customers on credit and refused acceptance or not delivered because of financial difficulties may be sold without undue sacrifice.

6. *Tariffs.*—Frequently the most important item in the cost of placing goods on foreign markets is the customs tariff. This may not be the same to all foreign manufacturers. Some nations may be favored, because of reciprocal arrangements. Again, the same articles may be charged different rates, according to differences in packing or even in description in the invoice. It should be kept in mind, too, that a low tariff may turn out to be quite as troublesome as a high tariff. The way in which the duties are levied and the speed with which goods are cleared are quite as important as the rate of duty that may be charged.

7. *Import prohibitions.*—Import prohibitions are found in many countries. They generally affect only small classes of articles and usually have some moral or hygienic object or reason of state in view. The importation of opium, of infected cattle or meats and of adulterated food is frequently forbidden. In the United States, the President may, by proclamation, suspend the importation of articles which he regards as dangerous to the public health and welfare.

In England "indecent or obscene prints, paintings, photographs, books, cards, lithographs or other engravings, or any obscene or indecent articles" are

barred. This type of prohibition is found especially in the Anglo-Saxon nations. The United States does not allow "obscene books, articles of immoral nature, drugs used for immoral purposes" or lottery tickets to enter the country.

Russia did not allow the importation of articles or writing of an "irreligious nature." Persia forbids the importation of anything which might be construed as attacking the Mohammedan religion.

By English law all infringements on English copyrights or patents are excluded and also articles which are prepared or packed in such a manner as to deceive the buyer as to the country of origin. France and the United States have similar laws.

Probably the most common import prohibition is attributable to state monopolies. In France tobacco, cigars, cigarettes, matches and cigar lighters, are all sold by governmental agencies; the importation of these articles for sale is therefore prohibited. In Servia cigarette papers are on the prohibited list. In Spain religious books, rosaries and other articles of a distinctly religious nature are only permitted to be imported by "authorized persons." State monopolies do not exclude the possibility of importing. The importation, however, if permitted, must take place thru the authorized channels.

Regulations of this sort are not infrequently made the means of discriminating against one country, as was done by Germany in the case of American meats, some fifteen years ago.

8. *Import duties.*—Import duties may be levied to raise revenue, to protect the home industry against foreign competition, or both. Most modern tariff systems aim at protection. Where revenue is the main or sole object in view the tariff will be relatively simple. A "flat rate" will probably be charged on all imports regardless of their origin or character. In some cases a similar flat rate is charged on all exports. Turkey charges eight per cent on the value of all imports and one per cent on all exports. Persia charges five per cent on both imports and exports.

Where the protection of home industry is sought, a more particular system is needed. A flat rate bears equally on goods which are needed for manufacturing purposes and on the finished product. A "scientific" system, on the other hand, would charge the exact rate on each article which will accomplish the end desired. If the object is to neutralize differences in the cost of production at home and abroad, then the "scientific" tariff would charge just enough to overcome the disadvantage which would otherwise handicap the domestic manufacturer.

Such a system is obviously complex and difficult of application. In the United States' tariff, articles are indexed in fourteen schedules of classification. The number of individual items enumerated is over 11,000. In addition, there is a "free list" of some 2000 articles which are not subject to duty. The Tariff Commission now engaged in a study of tariff problems will

doubtless throw light on means of simplifying the system.

Argentina's tariff classifies articles according to their value, in six schedules, subject to rates varying between two and one-half per cent and 50 per cent of the value of the goods. This is called a "classified tariff." It is simple on paper, but the fewness of the schedules and the classification of imports by value make an equitable arrangement of duties a very difficult matter.

The foreign trader should take note of the fact that not infrequently some minor change in the make-up or packing of goods may place them in a more favorable schedule. Under the Austrian tariff, for example, articles of fashion are charged according to the material on which the highest duty is paid. Some small scraps of embroidery on a garment would, therefore, increase the duty since the rate on embroidery would apply on the entire article, while if shipped separately, the main article would be charged at a lower rate and the embroidery bear little or no duty.

A study of the tariff and the spirit in which it is interpreted is one of the first steps in the study of the market. A thoro knowledge of the facts may save many dollars, prevent delays in delivery and diminish the number of dissatisfied customers.

9. *Ad valorem duties.*—Duties based upon the value of the article are called "ad valorem." The principle seems just—namely, that a more expensive

article should carry a higher duty than a less expensive one. Difficulties, however, arise in the administration of the method.

No uniformity exists in valuation. In Canada the value of the goods is their value at the port of embarkation. Some other countries take the value at the port of destination, adding together the value of the goods at the port of embarkation and the cost of transportation. In Zanzibar goods imported from Europe and America are taxed according to the cost or home valuation, plus charges, plus five per cent.

The governments of the different countries have not found it expedient to leave the determination of the value of imports entirely in the hands of the importer. Such a method would place a premium upon dishonesty. Governments, therefore, employ highly paid and specially trained staffs of appraisers to pass on the accuracy of importers' declarations. In Egypt the customs administration and the principal merchants get together periodically and fix the customs valuation of the classes of goods frequently imported. This "valuation tariff" as it is called, renders the declaration of the importer unnecessary and saves much time.

10. *Specific duties.*—Much simpler in administration is the specific duty. Under this system the goods are charged a certain duty according to quantity, weight or volume. There is an objection—cheap goods are taxed relatively more than expensive goods. In order to escape this objection, articles may be

classified in great detail. In the Austro-Hungarian tariff, for example, wooden articles were subdivided under many heads. One of these, "sticks of wood or cane," was again subdivided. Coarsely worked and stained they cost 7 kronen per 100 kg; lacquered or polished, 18 kronen; if combined with common materials 36 kronen; if wound around with thread or gutstrings 120 kronen. In this case, it proved advantageous to import partly finished canes and have the finishing done there.

11. *Tariff systems.*—Most countries use their tariff regulations as a means of bargaining with other states. In the United States, England, Belgium and many South American countries the tariff is established by the legislative arm of the government. With few exceptions it applies to all countries in the same way. This is called the "autonomous system." In Italy, Japan, and other countries the tariff is subject to constant modifications on account of agreements or conventions made with other states. In order, therefore, to ascertain what duties are to be paid on certain goods it is necessary to know not only the tariff law, but the conventions and treaties as well which modify the law. The relative competitive positions of the merchants of different nations are t' .. constantly being affected. Constant watchfulness must be exercised in order to keep informed of the conditions under which competitors are operating. Such a system is called the "conventional and autonomous."

12. *Multiple system.*—One serious drawback to the

conventional system is that the executive power can at any time, for the sake of diplomatic expediency, change a tariff which all interests had adjusted themselves. The "multiple system" eliminates this objection. A good example is the "triple tariff" found in Canada. One tariff applies only to the goods imported from the United Kingdom and its forty-three possessions and colonies; this is called the British preferential tariff. The second, called the intermediate tariff, applies to certain English products and to products from foreign countries in consideration of benefits received. The third or general tariff applies to all other products. Such a system affords stability and yet possesses a certain degree of flexibility in the hands of the executive power of the state.

13. *Tariffs in economic warfare.*—Protective tariffs established in response to the demands of national ambition are powerful weapons in economic warfare. It is not uncommon for a country to build a tariff far higher than is actually demanded by the circumstances in order that it may offer an opportunity for bargaining with other powers.

14. *Special duties.*—In such cases the benefit of special duties is held out as a basis for an exchange of favorable terms. Sweden and Norway have such duties. England and its many colonies and settlements are similarly united. It had been proposed that the Allied governments enter into a preferential tariff agreement discriminating against the former Central Empires. A conference held in Paris decided, how-

ever, that the difficulties of such an agreement between states of widely divergent interests were insuperable. Any serious development in this direction, therefore, cannot be looked for.

15. *Traffic unions.*—The next logical step to take, once a preferential group has been formed, is to do away with the tariffs altogether. This establishes a "tariff union." Such a union existed between the states which formed the German Empire; it is also found in South Africa. As a matter of fact, it exists between the states composing the United States of America.

16. *Unusual duties.*—The foreign trader will from time to time meet with duties arising from local conditions. One of these is the "transit duty." The South African Tariff Union charges a transit duty on all goods that go to countries outside the Tariff Union. Russia had transit duties in the trade with Persia. In most countries this kind of duty is no longer found.

Export duties are also found infrequently. They usually occur where the country has to some degree a monopoly in a trade or product. Chile has an export duty on saltpeter, Spain one on cork, Bolivia on rubber, and China at one time had an export duty on tea. Sometimes the export duty is an attempt to protect a national monopoly. An export duty of £5 is charged in South Africa on ostrich eggs and one of £100 on ostriches. A new export duty has been announced in Argentina on oats, mutton, butter, wheat, goatskin, cattle, barley and some other products

mainly of an agricultural nature. It seems to be largely a measure to protect the domestic consumer since no duty is charged until the prices of the products exceed a "basic" value.

In order to aid the shipping industry some countries levy a special tax on goods imported in ships navigating under a foreign flag. This is called the *surtax de pavillon.* They are found in Spain, France, and the United States. Goods entering the United States on foreign ships are to be taxed an additional 10 per cent. The provision does not apply, however, to ships flying the flags of nations with whom we have treaties according them the same treatment as American vessels. Since such treaties exist with practically every civilized nation that section of the law is almost meaningless. It has served, however, to give the government bargaining power with other nations.

17. *Anti-dumping duties.*—The most commonly found special duty is the "anti-dumping" duty. As before explained, a concern can afford to sell its product at cost or even slightly below cost in the smaller foreign market if its larger output permits it to bring down the unit cost of the product to a price that will yield a substantial profit in the much larger home market. The manufacturer located in the invaded country finds it difficult to compete and apparently has a choice only between going out of business and appealing to his government for protection.

Thus far governments generally have thought it best to give the protection.

In many countries the situation is met by what is called a "dumping duty." In the Union of South Africa this may be equal to the difference in actual selling price and the "true current value," but not to exceed 15 per cent ad valorem. It is perhaps a difficult problem to determine this "true market value," but the purpose of the law is clear. Canada has a somewhat similar law, levying a duty on the foreign article equal to the difference in selling price for home consumption and for export.

18. *Anti-trust law.*—Quite the opposite from that of the anti-dumping duties is the intention of a provision in the Canadian law which allows for a reduction in the duty on any article in regard to which "there exists any conspiracy, combination, agreement or arrangement of any kind" in the Dominion at the expense of the consumer. In such cases the government may take the extreme step of allowing the article to enter free of duty.

19. *Sources of information.*—The main sources of information are the tariff laws of the different countries. Carefully made translations of these tariff laws may be found in a volume of Kelly's "Customs Tariffs of the World." The Commerce Reports, issued by the Bureau of Foreign and Domestic Commerce at Washington, D. C., give notice of actual and proposed changes. Those inexperienced in research will,

however, act wisely in not trusting their own judgment too soon, and in relying for the first few years of their foreign trade upon the information to be obtained from the various official and private sources described in the next chapters.

REVIEW

Explain how social customs, traditions and the distribution of incomes influence the purchasing power of the market in respect to articles of different kinds.

What factors influence the "cost of placing goods on the market"?

What is meant by a "free list"?

Illustrate how the administration of a tariff may seriously interfere with the foreign trade of a country.

Give an example of a case where a lower rate of duty can be secured by exercising judgment in packing.

Why are not export duties more generally found?

CHAPTER IV

GOVERNMENTAL TRADE PROMOTION

1. *Various methods of promoting foreign trade.*—The government may aid foreign trade in three different ways. It may lighten the burdens imposed on the trader by tariff laws, either domestic or foreign. It may furnish trade information and establish schools or courses in foreign trade and it may actually cooperate in commercial undertakings.

2. *Commercial treaties.*—First as to lightening the burdens of the law. A free trade country is usually in a poor position to obtain concessions from other nations since it can offer nothing in return. Protectionist countries have in their tariff entries a basis for bargaining. The commercial treaty of bargain has, however, introduced an element which may lead to a breakdown of the protective system. The "most favored nation clause" in a treaty, for example, binds the contracting governments to confer upon each other all favors which they may in the future grant to other nations. Its most extreme or "unconditional form" makes it possible for some countries without making any concessions to fall heir to many desirable rights and privileges for which others have paid dear. Growing dissatisfaction with this clause will probably lead to its abandonment in after-the-war treaties.

Commercial treaties are not the only ones which concern the foreign trader. His status or that of his company, tho in most countries regulated by the local commercial law or code, is frequently modified and sometimes determined in its entirety by legal treaty. The right of "extra-territoriality" is an example. This is a right which is assured to the citizens of Christian countries in most non-Christian states to be judged according to the laws of their native land and not according to the laws of the state in which they reside. The United States had at one time a treaty with Turkey which stated that "if disputes should arise between the subjects of the Sublime Porte and citizens of the United States, the parties shall not be heard nor shall judgment be pronounced unless the American dragoman, interpreter or agent be present." Disputes between citizens of the United States were to be settled under this agreement in the consular court. Similar treaties exist with China, Japan, Siam and Persia.

3. *Patent rights and trade-marks.*—Treaties dealing with patent rights and trade-marks are important. American manufacturers have on the whole been neglectful of their foreign interest in these respects. It is not unusual for a manufacturer to decide to enter a market abroad and to spend a considerable sum in initial development, only to have his first shipment of goods confiscated because they carry an infringing trade-mark or embody an infringing patent. The explanation is that the American manu-

facturer has failed to take out a patent in the foreign country or register his trade-mark, and others have done so.

A pamphlet published by the Cleveland Chamber of Commerce describes a typical situation:—

> A Cuban druggist registered the mark of a preparation well known in the United States, and when shipments of these goods arrived he applied to the Cuban government to exclude them as an infringement of his trade-mark. It is said to have cost the owners $900 to buy up his rights, in addition to $300 in attorneys' fees.
>
> We are informed that there are at present in Havana half a dozen firms who are constantly on the lookout for the products of foreign manufacturers. As soon as the concerns referred to learn that certain articles are being sold in Cuba, they register the respective trade-marks in their own names and then demand money from the foreign manufacturer. If their requirements are not complied with, the "pirates" apply to the courts and can have all merchandise bearing their trade-marks confiscated and either turned over to them, or else destroyed.

The registration of patents and trade-marks by foreigners is possible in almost every country.

4. *How to register trade-marks.*—The process of registering a trade-mark is fairly simple. In the United States the applicant files with the Patent Office, in writing, a statement giving his name, location of business, citizenship, a description of the goods to which the trade-mark will be attached, and a drawing of the trade-mark. The fee is $10. The registration remains in force for 20 years, except in the case of a foreign patent, which expires when the pat-

ent right in the country of original registration expires.

With minor differences, the trade-mark registration laws of the principal foreign countries are similar to our own. The most important differences consist in the length of time over which the patent runs and whether "prior use" or "prior application" is taken as evidence of ownership.

The duration of the right differs. In Honduras no time limit is set; in Colombia it remains valid for 20 years; in Argentina for 10 years, but renewable. In Japan the right of exclusive use of a trade-mark expires with the cessation of the business for which it is used by the owner.

The question of ownership has its difficulties. In Bolivia, Argentina, Colombia, Chile and Cuba the owner is held to be the person first registering the mark. In other countries, as Costa Rica and Honduras, the owner is the one first using it. Most advanced nations have found it more satisfactory to allow provisional registration, which becomes final after a certain period. The first user is thus given an opportunity to establish his title. In England the period of provisional registration is five years, in Russia three years and in Holland six months.

5. *International trade-mark agreements.*—The first international conference dealing with trade-marks took place in 1883. This International Convention for the Protection of Industrial Property was joined by the United States in 1887. A certain uni-

formity of practice has resulted from this convention. Article 8, for example, decrees that "commercial names are entitled to protection without obligation of deposit." But much remains to be done.

By far the most ambitious international agreement is that between the states of North and South America. The International Bureau for the registration of Trade-Marks has two offices, or bureaus, that for South America being located in Rio de Janeiro, and that for the United States and Central America in Havana.

The agreement reads: "Any mark duly registered in one of the signatory states shall be considered as registered also in the other states of the Union" and a fee of $50 gold in addition to the registration fee for the state in "which application for registration is first made shall cover all expenses of both bureaus for the international registration in all the signatory states."

The United States has trade-mark treaties also with Belgium, Denmark, France, Great Britain, Italy, Japan, China, Luxemburg, Roumania, Servia, Spain, Switzerland and Holland and formerly with Germany, Austria-Hungary and Russia.

6. *Transportation agreements.*—On the continent of Europe international rate agreements regulated the international use of railroad equipment and also fixed thru freight and passenger rates. The central administrative office was located in Berne.

The agreements existing between the railroads of the United States and those of Canada are at present all of a private nature.

7. *Postal agreements.*—Few people realize that the mail service which now operates so smoothly dates only from the latter part of the nineteenth century. It was in 1874 that the first International Postal Convention agreed to the sanctity of the mail, to a twenty-five centimes (five cents) postal rate and to the establishing and maintaining of a central administrative bureau to be located in Berne. An international parcel post agreement was established in 1885 and the international money order in 1891. The international reply coupon is one of the latest facilities introduced. The coupon may be bought at any post-office and is redeemable in any member country in a stamp of twenty-five centimes. It is thus possible in writing foreign correspondents to "enclose stamps" for reply.

With some exceptions, the rate of postage for a letter of one ounce is uniformly five cents; each additional ounce requires three cents more. Under the same agreement the rate for postal cards is two cents, for printed matter one cent for two ounces, for samples two cents for four ounces, and two cents additional for every two ounces above four. Registration costs ten cents additional. Domestic rates apply to Porto Rico, Philippine Islands, Cuba, Canal Zone, Panama, Hawaii, Shanghai, and England.[1] Before the war, letters to Germany carried on German ships were also carried at the domestic rate.

[1] Domestic rates have been extended to include the Bahamas, Canada, British Guiana, British Honduras, Dominican Republic, Duth West Indies, Ireland, Scotland, Wales, Leeward Islands, Mexico, Newfoundland, New Zealand, Trinidad and Windward Islands.

8. *The national trade-mark.*—England in 1891 passed a law that all imported goods were to be conspicuously marked with the name of the country from which they were exported. This was because it was believed that the success of foreign goods in the home market was due mainly to fraud. The chief effect of the law was to advertise German goods both in England and in South America where English firms frequently resold these German goods. The law was revised in 1907 to have imported goods labelled "made abroad." But the lesson had been taught and the "made in Germany" labels first demanded by Germany's leading trade rival advertised German products in every corner of the world.

Lately, the advisability of adopting a national trade-mark for the United States has been discussed in export circles. The National Retail Dry Goods Association and other bodies have indorsed it. It is represented that a national trade-mark which would be registered in all countries, would not only advertise American goods but would also aid the American manufacturer in fighting the fraudulent registrations of his own trade-mark abroad, since no one but he could carry both his individual trade-mark and the label "made in the U. S. A."

The administrative difficulties of such an undertaking may stand in the way of its adoption. It would not help American prestige abroad to grant the use of this national mark to every one making application. Poor goods under the American label

would reflect on the label itself. But how is it to be decided who shall and who shall not receive the right to the trade-mark?

In Switzerland a semi-official organization grants the right to use the Swiss national trade-mark only to firms owned by Swiss and employing Swiss labor. The administration of this trade-mark is in the hands of the Syndicat pour l'Exportation Suisse which body consists of fifteen members, the president of the Geneva Chamber of Commerce acting as chairman. The object of this national trade-mark is to protect Swiss industry from the suspicion that German firms are masquerading in the world markets as Swiss firms.

In Ireland, a national trade-mark "made in Ireland" was adopted in 1906 and is administered by the Irish Industrial Development Association, Inc.

A suggestive proposal made by Mr. Beaumont Alexander, president of the Allied Industries Corporation, has been widely discussed. It is for the enactment in all allied and neutral countries of a law requiring that all goods imported into the countries where the law is in force be stamped with the name of the country of their origin. If the goods are made in one country with capital coming from another they would be stamped, "made in Sweden with U. S. A. capital," or, "made in Holland with 75 per cent Dutch capital and 25 per cent French capital."

An international agreement of this type would be an effective way of protecting other nations against the camouflaged German products which will be

dumped upon the markets of the world thru neutral channels. That such is the plan of German exporters is shown by many published articles, of which the following quotations from "The Future of German Industrial Exports," by S. Herzog, are representative:

> Out of regard for the rehabilitation of trade with formerly hostile countries, the German garb of manufactured articles must be put away.
>
> The German trade-mark ought not to be used at first in export trade with formerly hostile countries; the same rule holds good in placing German patent stamps on the outside of goods.
>
> The reopening of export relationships with once hostile countries must take place thru neutrals instead of thru direct representatives as in the past.

9. *International standardization.*—The wide use which has been made of the metric system in American machine shops during the war times, especially in dealing with instruments of precision, has broken down the wall of prejudice which existed in this country against an adoption of that system. It is within the possibilities that the United States will at some early date follow the example of the thirty-four countries which have made the use of the system compulsory. It is already used exclusively in the United States Public Health Service, in the Philippine Islands, in Porto Rico, in the medical work of the War Department, and of the Navy, and in the coinage system. All of Europe, with the exception of England and Greece, all of Latin America, except Bolivia, Paraguay and Venezuela, have adopted it.

It is beyond question that our present system of measurements is clumsy. It is an obstacle in foreign trade transactions, "non-metric" products not being usable as a rule in "metric" countries; the "non-metric" business man cannot easily grasp statistics and other market information which comes to him in terms of the metric system; while the ignorance of foreign countries respecting our system makes our trade literature and price quotations unintelligible to them. The only objections against our changing our system are the difficulty and expense of doing so.

10. *Draw-backs.*—When imported products are intended, not for domestic consumption, but for re-export, governments generally refund the amount of the import duty upon such re-exportation. This is called a "draw-back." The imported product in question is generally in the form of raw material or parts and is worked up into manufactured form before being sent abroad.

In the United States draw-backs are allowed when imported materials on which duty has been paid are used in the manufacture of articles which are subsequently exported. In order to defray the administrative expenses one per cent of the duties paid is held back. During the fiscal year ending June 30, 1917, the United States Government paid in draw-backs $17,773,013.46.

In Italy, the law of "temporary importation and exportation" provides also for those cases where partly finished goods such as silks are exported to undergo

a finishing process and then re-imported. Such goods are not required to pay the import duty.

It is obvious that the administration of these matters is difficult. The importer must comply with rather annoying technical requirements. The difficulty of refunding the right amount to the right person opens the way for many abuses. In Germany where the "equivalent principle" was accepted, export tickets were issued which indicated the quantity of goods upon which duty had been paid, but did not mention the name of the importer. These tickets were bought and sold and were used by exporters even when exporting goods containing no foreign materials.

Germany at one time used the draw-back as a clever scheme to pay a bounty to exporters of sugar without publicly acknowledging the fact. The sugar tax in Germany was levied on beets according to weight. The draw-back was paid on the basis of one pound of sugar for every twenty pounds of beets. As long as twenty pounds of beets actually yielded one pound of sugar the draw-back equalled the tax paid, but when the extraction processes improved and the sugar beets were more carefully cultivated and contained a higher percentage of sugar, the draw-back became a very considerable bounty.

Under the Canadian Customs Act, draw-backs are allowed in many cases, tho in some cases only 50 per cent of the amount paid in duties is refunded.

11. *Bonded warehouses.*—The refund of duties

paid is a great aid to the exporter, but the refund can never repay him for the loss of interest on the amount temporarily invested in the duties. The bonded warehouse offers an opportunity to postpone the payment of duties until the goods are actually released for home consumption. Goods which are re-exported never pay duty at all, but pass out of the bonded warehouse into the vessel.

Two classes of bonded warehouses are generally recognized, government bonded warehouses, and private bonded warehouses built and maintained by private individuals but nevertheless under strict government supervision.

In the United States bonded warehouses may be classified as follows: government warehouses, private warehouses belonging to importers, private warehouses for general use; private warehouses for special articles such as sugar, coal and wood; grain elevators; private warehouses for the manufacture or exportation of goods made wholly or in part from imported goods, or of goods subject to internal revenue; and finally, warehouses for imported ores to be refined and re-exported.

The use of the bonded warehouse is not as highly developed in this country as it is abroad. In France, bonded warehouses are found in all the large ports, while a wonderful system of bonded warehouses is maintained in Paris. The Compagnie des Entrepots et Magasins Generaux de Paris operates large warehouses in Paris, and also owns enormous loading and

unloading facilities near railroads and canals leading into that city. By no means the least important is the service which the company furnishes; for all loading and unloading, repacking and clearing are done by the company for its patrons. The warehouses are not used very much by American firms, tho large quantities of farm machinery have occasionally been stored there. The company issues two receipts, the *recepisse a ordre* and the *bulletin*. This latter corresponds to our warehouse receipts and the "warrant" of the English bonded warehouses and may be used as collateral with a bank. Banks in Paris will sometimes lend as much as 60 per cent of the value of the goods on it.

Warehouses of this kind are frequently used by French importers who have no intention of leaving their goods in bond, but desire to expedite delivery. They have found that goods shipped in bond to the warehouses in Paris are allowed to pass the frontier without delay and once in Paris are quickly cleared, while goods not so directed are frequently held up for long periods at the congested frontier custom-houses. Moreover, in the former case, the importer need not maintain a representative at the port or customs station of entry. He can either attend to the clearing himself, or else have the company do so.

These warehouses, or *entrepots*, as they are called on the Continent, render substantially the same kind of services. The Vienna warehouses, however, went so far as to attend to the taking and shipping of sam-

ples. The government warehouses in Trieste exempted goods from warehouse charges during the first three days of storage.

In some cases chambers of commerce administer the warehouses, as is the case in Bordeaux. In Liverpool, the Mersey Docks and Harbor Board, a public trust created by special act of parliament, is in charge of the administration of these facilities.

In the Latin-American countries the bonded warehouse is infrequent. In Bahia, Brazil, the Federal government and also the State government maintain ordinary storage warehouses. The Central Bank of Mexico City, the Mercantile Bank of Vera Cruz, and the Anglo-Mexican Banking Company jointly own a subsidiary company which among other functions performs that of storing "national and foreign merchandise."

12. *Free zones.*—In countries having a high protective tariff which are at the same time great reshipment centers, free zones or free harbors are frequently established. The purpose of the free zone is the same as that of the bonded warehouse. It is merely a section of a port and sometimes an entire port excluded from the customs territory. Re-shipment, storing, and manufacturing may take place within the zone without involving the payment of duties. As soon, however, as the goods pass out of the free zone into the customs territory duties must be paid.

Free harbors are found in Hamburg, Bremen, Co-

penhagen, Trieste, Fiume, Hongkong and Singapore. Recently Christiania has announced its intention to establish a free port. Malmo, Sweden, has appropriated 15,000,000 crowns for the building of a free port to be completed in 1920. Helsingfors, Finland, plans one; Barcelona a *deposito franco* or free depot and Cadiz a free zone. In England a special committee of the Association of Chambers of Commerce of the United Kingdom was appointed in 1918 to investigate the establishing of free ports in the British Isles.

The administration of these free ports is sometimes in the hands of the city to which the port belongs, sometimes in the hands of the central government, and sometimes in the hands of a separate corporation. The latter is the case in Copenhagen where the free port is controlled by the Copenhagen Free Port Company, Limited, created by royal charter in 1892.

The question of a free port in the United States has been discussed in commercial circles. The Merchants' Association in New York advocated the creation of one in New York. It has been proposed to make the entire manufacturing section extending along the Atlantic Coast from Philadelphia to Boston a free zone. A number of free ports both on the Atlantic and on the Pacific Coast are a likelihood.

13. *Transportation rates.*—Draw-backs are only one method of giving indirect support to manufacturing exporters. In many countries, goods shipped to ocean ports from interior points and intended for ex-

port are charged a lower freight rate than goods intended for home consumption. These "export thru rates" are to a limited extent found in the United States. They were very common in Germany and formed a very substantial aid to the export trade of the country.

Sometimes the difference in freight rates is very great; from Westphalia to Hamburg the average normal price was, some time before the war, 5.11 pfgs. per ton kilometer, and the average special price allowed to exporters was 2.6 pfgs.

A. M. Thackera, United States Consul General at Paris, in a report of the United States National Waterways Commission, makes the following comparison:

		Distance in miles		Rate per ton in ten-ton carload lots	
Cologne	Hamburg	267.2	Articles	Export	Normal
"	"		Copper goods	$3.14	$6.38
"	"		Cotton goods	3.64	6.38
"	"		Machinery and iron wares	2.52	4.86
"	"		Locomotives	1.33	3.83

In 1914 Aulagnon estimated that the reduction of rates in favor of German exporters on grains, alcohol, sugar, coal, steel, lead and wood amounted to approximately 35 per cent. By means of international tariff treaties, Germany gained control over international thru-rates with the result that the rates on German, Swiss and Italian thru freight were arranged in such a way as to place Northern Italy

economically at the mercy of Germany. The government railroads of Germany transported at a loss in order to develop exports.

14. *Export bounties.*—Direct payments to exporters in the form of export bounties are not frequent at present. Alexander Hamilton advocated this method of encouraging foreign trade, but no direct bounties have ever been paid in the United States. England before 1814 had an export bounty on wheat. France has an export bounty on codfish in order to encourage fisheries. Prior to the Brussels Conventions of 1901–1902 bounties were paid on sugar exports in Belgium, Russia, Holland, France and Germany. In England and the United States the executive branch of the government may increase the duty on imported articles upon which bounties have been paid, by the amount of the bounty. Such duties are sometimes called "countervailing duties."

15. *Educational work.*—More lasting in its effect than any artificial stimulus to trade is the educational work which a government may undertake. This is not extensive. Contrary to the commonly held notion, commercial education among the European nations has not been a government activity. A large number, probably the majority, of commercial schools of secondary and of college grade have been established and are at present supported by endowments and contributions from individuals and by chambers of commerce, or are municipal undertakings. This is true of the well known commercial schools of Bor-

deaux, Paris, Cologne, Hamburg, Rotterdam and Manchester. The Konsular Akademie in Austria-Hungary was one of the few exceptions.

16. *Trade information.*—The information services maintained by the United States Government may be enumerated:

The Consuls. A complete list of these officials may be secured from the Department of State and may also be found in the "Exporter's Encyclopedia." Their reports are published in the "Commerce Reports" and in "Special Consular Reports."

The Foreign Trade Advisers. These form a bureau recently established in the Department of State to serve as its commercial office.

The Commercial Attachés. They report frequently on market conditions and work under direction of the Department of Commerce, in close cooperation with the Bureau of Foreign and Domestic Commerce. The result of their investigations is published by the Bureau of Foreign and Domestic Commerce.

The Special Agents. They make special investigations concerning possibilities of trade expansion and their reports are published in "The Special Agents' Series."

The Bureau of Foreign and Domestic Commerce now maintains offices in the following cities: New York, Chicago, Boston, St. Louis, New Orleans, San Francisco, Seattle and cooperative offices in connection with the following institutions: the Cleveland

Chamber of Commerce, Philadelphia Chamber of Commerce, Cincinnati Chamber of Commerce, Los Angeles Chamber of Commerce, Southern Railway System, Portland Chamber of Commerce, and the Greater Dayton Association.

Analogous sources of information are available for the use of persons in foreign trade living in the other commercial countries.

REVIEW

Describe the nature and purpose of the International Bureau for the Registration of Trade-marks.

How would you "inclose stamps" when corresponding with a firm in a foreign country?

What protective action has been proposed against the influx of German goods disguised as neutral manufactures?

Explain how "draw-backs" operate as bounties.

Explain how "bonded warehouses" may aid in financing foreign trade transactions.

Enumerate some of the sources of foreign trade information available to business men.

CHAPTER V

PRIVATE TRADE PROMOTION

1. *American and English chambers of commerce.* —The promotion of foreign commerce has received the attention of many American chambers of commerce and commercial bodies. The Chicago Association of Commerce, for example, aids its members by establishing agencies abroad, and also by bringing them in touch locally with visiting foreign buyers. Bulletins and circular letters are issued at frequent intervals containing valuable information in regard to general market conditions, tariff changes and other relevant matters. The association maintained for five years a branch office in Buenos Aires in charge of an experienced representative who submitted reports on business conditions, and spent more than one-half of his time in travel, advertising the products of the members. Later the work was turned over to the American commercial attaché. The association still answers questions of members concerning ocean freight rates, sailing dates, methods of packing and similar subjects.

The foreign trade department of the San Francisco Chamber of Commerce has a library on trade subjects and is equipped to answer questions relating to

the harbor problems of the world, the cost of entering and clearing, loading and discharging of vessels, the kind of loading facilities available in each harbor and the best way of routing a shipment.

The Cleveland Chamber of Commerce, like many other chambers, a cooperative branch office of the United States Bureau of Foreign and Domestic Commerce, has a classified record of manufacturers in Cleveland and vicinity interested in foreign trade, and how their export business is handled; a library of maps, trade journals, government publications, cable codes, and commercial directories, a permanent exhibit of documents used in shipping and financing an export order and a compilation of data respecting goods produced in or near Cleveland.

The same foreign trade department has made investigations regarding the market conditions in various parts of the world in specific lines, such as cutting tools, paper and paper goods and aluminum cooking utensils. Arrangements have been made with trade-mark attorneys in Argentina, Brazil, Chile and Cuba, to register Cleveland-owned trade-marks at a special rate. Assistance is given in the collecting of accounts in foreign countries. A translation service is at the disposal of members who do not have the command of the language of their foreign customers. A large number of pamphlets have been published dealing with topics such as "Your Trade-mark in Cuba" and "Foreign Trade Reports."

These few examples by no means exhaust the list

of American chambers of commerce which are active in the promotion of foreign trade. Those of New York, Boston, Cincinnati, St. Louis, Detroit, Seattle, Milwaukee, Pittsburgh, Philadelphia and many other large cities might have been similarly described.

2. *Tendency towards centralization.*—The American chamber of commerce is a purely private undertaking. It is often only one, and not always the most important, of several commercial associations. In some cities the Young Men's Business League is gradually absorbing the functions of too-conservative chambers of commerce. This type of organization is called the English type of chamber of commerce. It is found also in Belgium, Switzerland, Sweden, and in most countries outside of Europe.

The establishing of branch offices of the Bureau of Foreign and Domestic Commerce in chambers of commerce in the United States is a step in the direction of bringing about a closer relation between the business world and government trade assistance.

In England, which at present boasts 125 chambers of commerce, the tendency has been towards greater official recognition of these organizations. A large degree of centralization is also secured thru the work of the Association of Chambers of Commerce in the United Kingdom, which discusses questions of trade, collects and disseminates information, petitions Parliament in questions of trade, manufacturing and shipping, prepares bills dealing with these subjects and protests against measures injurious to trade. It

appears, however, that the government is still more or less indifferent to the practical business man's advice.

In the United States a similar central body exists in the Chamber of Commerce of the United States. This, like its British prototype, is an organization to which chambers of commerce, trade organizations and individuals may belong, and which aims to become wholly representative of the business world, keeping close watch on all government activity that affects or may affect business at home and abroad. It publishes a magazine, *The Nation's Business,* a weekly publication, *Legislative Bulletin,* during sessions of Congress, and also a general bulletin which appears monthly. Important questions are submitted to a referendum vote. The Chamber unquestionably exerts considerable influence upon the attitude of Congress.

3. *The French type of chamber of commerce.*— Quite a different sort of organization is the French type of chamber of commerce found in France, Italy, Holland, Bulgaria, Roumania, Turkey, China, Japan, Brazil, Spain and previous to the war in Russia, Germany and Austria-Hungary. These organizations are semi-official bodies, established in accordance with the commercial code and they are entrusted with many functions which in this country are regarded as strictly governmental affairs.

Under the law every department must have at least one chamber of commerce. Every chamber of com-

merce is established only by permission of the Minister of Commerce, the municipal council, the departmental council, and in case a second chamber of commerce is desired in one department, the consent of the existing chambers of commerce must also be obtained.

The conditions of membership, the right to vote and the right to hold office are all regulated by law. The nature of the organization is made more evident by a statement of its purpose, which is first of all "to support and aid the government by advice and criticism and suggestions as far as commerce, industry and navigation are concerned." The chambers of commerce are given a large degree of authority over commerce courts, bonded warehouses, auctions, stock, produce and ship brokers, exchanges, transportation rates, and the undertaking of public works.

Some thirty chambers of commerce in harbor towns have taken action in aiding the development of harbor facilities, eight have built warehouses, ten have established bonded warehouses, ten supervised stock exchanges, eight have charge of silk and textile testing bureaus, twelve support colleges of commerce, five maintain commercial museums, some install the telephone system in their department, while others maintain homes for sailors.

The Paris Chamber of Commerce maintains the following undertakings: a library, testing plants for

silk, wool, paper and ammunitions, railroad and river terminal facilities, bonded warehouses, a college of commerce, a commercial high school with four years' course and one with a two years' course, evening classes in commercial subjects for men and women, and it, moreover, exercises supervision over the exchanges and appointments of brokers. It issues licenses for commercial travelers and certificates of origin for exports.

Since 1895 the chambers of commerce have had representation on the Commission Consultative Permanente, which advises the government upon questions of trade.

In the other countries above enumerated, the functions of the chambers of commerce bear the same official character, tho the same scope of action is not found in every case. Centralization is frequently obtained, as is the case of the chambers of commerce of the English type, by national organization. In Germany the Deutsche Handelstag represented the business interests of the country. In Belgium this same purpose was served by the Federation des Associations Commerciales et Industrielles in Brussels.

In Brazil the Junta Commercial, which is entrusted with public functions and has a small membership elected by merchants, and a president and secretary appointed by the government, exists side by side with the Associaçao Commercial, which is a chamber of commerce of the English type.

Spain has prepared for after-the-war competition by a change from the English to the French type of chamber of commerce.

4. *American chambers of commerce abroad.*—Business men of the same nationality located in a foreign country, frequently associate themselves in a chamber of commerce. Membership is not always restricted to such nationals. As a matter of fact, there are some "American" chambers of commerce abroad, made up wholly of forcign importers interested in American business. Many a chamber of commerce has an international character, being frequently then called a general chamber of commerce. This kind is found in Hongkong, Singapore, Constantinople, Cairo, Manila and Havana, and many South American cities.

The French Government has given encouragement and support to the movement and exercises to some extent control over them. Where government support is given, membership is restricted to French citizens.

England has about 100 such chambers in its colonies and at least ten in foreign countries. In London there are no less than eight foreign chambers of commerce, which have united in a Federation of Foreign Chambers of Commerce to look after their interests.

In the United States many such bodies exist, among them the Spanish Chamber of Commerce of New York, which is an official representative of the Spanish

Government; the Italian Chamber of Commerce of New York, Chicago and San Francisco; the Norwegian-American Chamber of Commerce, formerly the American-Norwegian Chamber of Commerce of New York; the Compagnie de Developement Commercial Franco-Belge des Etats Unis, of Chicago; the Chamber of German-American Commerce of New York at present discontinued; the Holland-America Chamber of Commerce for the Pacific of San Francisco; and the American-Russian Chamber of Commerce of New York.

Among the American chambers of commerce abroad, the following are prominent: The Chamber of Commerce for the Levant, in Constantinople, Athens and Salonica; the American-Export Chamber of Commerce of Amsterdam; the American-Belgian Chamber of Commerce of Brussels; the American Chamber of Commerce in Paris; the American Commercial Club in Buenos Aires, besides similar organizations in Shanghai, Brazil, Petrograd, Moscow, Barcelona, Naples, Milan, and Berlin.

5. *Trade organizations.*—Besides the chambers of commerce promoting the interests of specific localities in foreign trade, there are trade or industrial associations looking after the welfare of lines of business represented abroad. The most important of these in this country are the Interstate Cottonseed Crushers Association, the New England Shoe and Leather Association, the National Lumber Exporters Association,

the Oregon-Washington-California Coast Salmon Packers Association, and the National Implement and Vehicle Association.

Trade organizations of a general character are the American Manufacturers' Export Association. This body organized the National Foreign Trade Convention, held in 1914, from which resulted the National Foreign Trade Council. This organization maintains an information service for its members in New York and has correspondents in foreign countries. It supplies credit information, translates letters and catalogues, and looks after collections abroad.

The Council, organized as a body which should "endeavor to coordinate the foreign trade activities of the nation" has an authorized maximum membership of fifty. Its function is investigatory and advisory. Reports on important questions are made from time to time and yearly meetings are held, where topics of national importance are discussed.

The National Association of Manufacturers is very active along foreign trade lines. It publishes the *Semi-Monthly Bulletin,* a monthly, *American Industries,* and two monthly international organs, *Export American Industries,* reaching thousands of business men in Europe, Australia, Africa and Asia, and *America e Industrias Americanas,* intended for Spanish speaking countries.

The "American Trade Index" is a little volume containing the names of all the members of the Association with their addresses and a short statement of

the products handled by them. Frequent "Market Reports" published in pamphlet form give information about conditions abroad; the *Confidential Bulletin,* published semi-monthly, gives a list of American goods for which inquiries were received with the name and address of the inquirer. A list of foreign business houses interested in any particular line of goods is furnished to members. The office makes translations, secures credit information thru over eighteen hundred confidential correspondents, undertakes to collect overdue accounts, gives advice regarding patents and trade-marks, tariffs, freight rates and general information useful to the commercial traveler about to enter a new field. In 1915, the Association organized the International Trade Conference in New York.

Many state-wide organizations perform approximately the same service within their limited area. The Tennessee Manufacturers Association and the Illinois Manufacturers Association belong to this group.

6. *Trade organizations abroad.*—The most efficient foreign trade promotion work is performed in many countries by the trade organizations. In Germany these organizations were closely connected with the cartel policy and usually combined a price fixing policy with the function of securing information. This aspect of trade cooperation will be discussed at length in the chapter dealing with combinations for export trade.

Organizations too numerous to mention are in existence in European countries. The Canadian Manu-

facturers Association and the Export Association of Canada are of this same type. A new development is seen in the case of the Swedish General Export Union which recently in combination with the Swedish Chamber of Manufacturers established a Central Committee for Swedish Export Industry. This new organization announces as its purpose to advise the government in matters of tariffs, treaties and the obtaining of favorable terms from foreign governments.

7. *Banks as export promoters.*—The number of American banks active in foreign trade is small. The National City Bank of New York City has branches in many of the South American countries as well as in Asia and in Europe, and supplies foreign traders with information as well as finances their shipments. The American International Corporation with a capitalization of $50,000,000 organized to undertake the making of foreign investments is closely connected with the National City Bank. The bank publishes a monthly magazine of information, *The Americas,* and pamphlets on special topics. The Mercantile Bank of the Americas, New York City, American Foreign Banking Corporation, New York City, First National Corporation of Boston, and the Discount Corporation of New York are other banking institutions interested in promoting foreign trade.

A constantly increasing number of the leading American banks and trust companies, among them the National City Bank, National Bank of Commerce, Irving National and Guaranty Trust, all of

New York, and the First National Bank of Boston are issuing letters, pamphlets and sometimes books dealing with various aspects of foreign trade.

In France the Credit Lyonnais, the Comptoir National d'Escompte de Paris, and the Société Générale de Crédit Industriel et Commercial are the most active in foreign trade.

England is represented abroad by a large number of banks. The Bank of Egypt, the British Bank of South America, the Hongkong and Shanghai Bank, the Imperial Bank of Persia, the London and River Plate Bank, and the American Bank are but a few of a long list. English foreign banks usually specialize in one section of the globe and establish many branch banks.

The German banks in pre-war times did not specialize as closely as English banks but they had a certain degree of territorial specialization. Among the largest German "over-seas banks" at that time were the Banco Aleman Transatlantico which had headquarters in Berlin and branches in more than twenty-three Latin-American cities. The Banco de Chile y Alemania with headquarters in Hamburg and twelve branches in Latin America, the Deutsch-Südamerikanische Bank of Berlin in Buenos Aires, the Deutsche Bank and the Disconto Gesellschaft were very powerful banks. The latter two had been instrumental in establishing many banks in foreign lands. The Dresdner Bank had specialized in the Balkan States and had also entered the South American field.

The documents which the exporter attaches to the draft discounted at the bank to be forwarded to foreign banks for collection, tell an interesting story to those engaged in foreign trade. The German oversea banks were not slow in realizing that, and the German manufacturers were greatly benefited by the detailed information regarding the business transactions of foreign rivals which was furnished them by their banks. These latter, with characteristic Teutonic morality, considered it a part of their legitimate business to act as business spies.

8. *Recent changes.*—Recently many changes in the banking world have taken place, all pointing toward an exploitation of the international banking field on a larger scale than ever before. The Hollandsche Bank voor Zuid Amerika of Amsterdam has opened branches in Rio de Janeiro and Buenos Aires. The English banks are increasing the number of their branches especially in South America. The consolidation of the London County and Westminster Bank with Parr's Bank, both strongly intrenched in foreign connections, is merely one of many consolidations taking place in that country. The British Trade Corporation, organized in 1917, "to provide financial facilities for trade after the war," with a capitalization of £10,000,000, is another significant development; and the organization of the British Overseas Banks Association comprising all the most important banks engaged in foreign transactions still another. The Italian Government in 1917, established the National

Institute for Foreign Exchange to control all foreign exchange transactions in Italy. This includes the establishing of the weekly rates.

Despite their desperate situation in the last year of the war, German foreign bankers were not inactive. In April, 1918, a Society for International Undertakings was created with a capital stock of 20,000,000 marks as a rival of the American International Corporation. Another similar, but even larger organization with the same purpose was founded in Hamburg about the same time.

9. *Sample fairs.*—One of the most interesting recent developments in foreign trade promotion is the opening in many parts of the world of "sample fairs."

At the beginning of the war only two national fairs, that at Nijni Novgorod in Russia, and that at Leipzig in Germany, had international significance. At these fairs merchants from every corner of the world came together to offer their goods for sale and to place large orders. The manufacturers thru these fairs contracted for delivery far ahead of production and reduced their risk by thus being able to adjust production to sales. Business was done thru samples and admission was limited to bona fide buyers.

The war revived many old fairs and led to the establishing of new ones. In 1916 the Lyons Fair was opened to "replace that of Leipzig." It was attended by 1342 firms of different nationalities among whom were four Canadian but not one American. The amount of business done exceeded $10,000,000. In

1917, the number of exhibitors increased to 2614, and there were 33 American firms represented. The volume of business increased to $36,000,000, not including that done thru catalogs in the United States Bureau, which alone reached $42,000,000. The third fair, held in 1918, was a still greater success. A permanent exhibition palace has been built.

The Bordeaux Sample Fair is becoming a fair for goods sold or produced in the French colonies. The Paris Fair, revived in 1916, is limited to French industry. The Utrecht Fair in Holland has become a permanent institution.

The British Industries Fair is administered by the Board of Trade and "admission to it is restricted to bona fide buyers for home and oversea markets." The Glasgow Industries Fair is limited to domestic producers of chemicals, foodstuffs, cardboard, shoes, hosiery, and textiles. Gottenborg, in Sweden, opened its first fair in 1918.

10. *Expositions.*—The fairs just discussed must not be confused with expositions. The fundamental difference between them is that at the fair only business men meet while the expositions appeal principally to consumers. The international exposition is expensive and its commercial value is doubtful. It is, therefore, not likely to remain an important factor in foreign trade. The trade fair, restricted to a limited range of articles, is likely to take its place.

11. *Permanent exhibits.*—Of more importance is the permanent exhibit. This may display the goods

of the country or only of a section. Barcelona maintains textile exhibits; there were also export exhibits in Stuttgart, Berlin and Leipzig. The exhibits of the California Development Association in San Francisco, and the Deseret Museum in Salt Lake City are some domestic examples.

The object of the exhibit may be to acquaint foreign buyers with the products of the country. The French Commercial Museum in Tunis, the exhibit of Dutch East India products in New York, the Mexican exhibit in St. Louis, and the Mexican exhibits maintained in connection with their consulates, the Brazilian textile exhibit in Buenos Aires, the Hungarian exhibits in Albanian cities are of this character. The Japanese have recently established a number of such exhibits in South American cities. Fifty English manufacturers have combined in holding periodic exhibits of their goods in Buenos Aires and Rio de Janeiro, apparently with satisfactory results.

The exhibit may be one of foreign products to allow the home manufacturers to acquaint themselves with the products of their competitors in foreign markets. The Bureau of Foreign and Domestic Commerce maintains traveling exhibits and also a permanent exhibit of goods sold in foreign markets in connection with its office in New York. The English Board of Trade, previous to the war, had a permanent exhibit of over 13,000 samples of German and Austrian goods and a library of some 10,000 German catalogs.

Business men who are asked to support these exhibits can hardly expect to receive immediate or direct returns on their investment. Promoters of such exhibits sometimes undertake active selling campaigns for their subscribers but do not often meet with success. The number of articles represented in an exhibit is usually too large to make it possible for one man or small group of men to sell them effectively. The management of the exhibit will ordinarily do well to limit itself to keeping it up to date, distributing catalogs to interested visitors and giving information and advice.

12. *The commercial museum.*—In the commercial museum no attempt is made to close sales. The exhibits are for the purpose of disseminating information. Frequently a foreign trade bureau is an adjunct of the museum and provides business men with guidance in difficult problems.

In this country the only commercial museum worth mentioning is the Philadelphia Commercial Museum. This institution, supported by the city of Philadelphia, the State of Pennsylvania, and by private subscription, ranks as the best museum in the world. Among the purely educational work may be mentioned the lectures which are sent out by the lecture bureau to schools thruout the state. These lectures deal with various countries or with certain industries and are illustrated by lantern slides furnished by the museum. Attractive cabinets containing samples of

the principal raw articles of commerce are sold to high schools and colleges for a nominal price.

The business man can derive great benefit from the excellent service rendered by the Foreign Trade Bureau of the Museum. This bureau publishes a monthly, *Commercial America,* which is published also in Spanish and widely distributed in Latin America, where the Museum is known and highly regarded. A weekly bulletin gives a list of inquiries received from foreign firms and much valuable current information. Upon request the bureau furnishes information about specific markets or products. It gathers credit information, makes translations into any foreign language, circulates printed lists of manufacturers and their products among foreign buyers, aids in collecting over-due accounts and in securing reliable agents abroad. Its library is one of the best in this country for the subjects of foreign trade and shipping.

The exhibits, which occupy two large buildings, represent a large investment and are arranged so as to give a complete picture of the products of each country, by types, grades and steps of manufacture. The collection of photos, drawings, and models dealing with the history of transportation is highly instructive.

The oldest and probably the best commercial museum in Europe is the Commercial Museum in Vienna. This institution, tho nominally an independent

corporation, was officially maintained by the Austrian Government. It constitutes the official channel thru which the business man obtains information from the Austrian consuls. It issued two publications. In connection with the museum the Export Akademie was maintained which trained for business and prepared for the consular service.

Other examples are the museum in Brussels, which published a weekly *Bulletin Commercial,* the Imperial Institute for the United Kingdom, the Colonies and India, in South Kensington, London, which issues the splendid monthly *Imperial Institute Journal* and the quarterly *Bulletin of the Imperial Institute.* Other museums are found in Bordeaux, Marseilles, Amsterdam, Bremen and Berlin.

13. *Export publications.*—Many excellent magazines enable the progressive business man to keep informed. *The American Exporter* with editions in English, Spanish, Portuguese, French and German, *El Comercio, The Exporter's Review,* Dun's *International Review* in English and Spanish, *Russia, Asia, The Pan-American Magazine, The South American,* and a number of house organs, such as *The World's Markets,* issued by R. G. Dun and Company, and *The Americas,* published by the National City Bank of New York, are but a few of a long list of excellent publications.

The development of foreign markets is such a delicate business and calls for so much specialized knowledge that any firm about to enter the foreign field

will find an investment in a fairly complete library of export and special trade publications a paying proposition.

REVIEW

Outline some of the activities engaged in by foreign trade departments of American chambers of commerce.

Describe the purpose and organization of the Chamber of Commerce of the United States.

Describe the activities of the Chamber of Commerce of Paris.

In what respect does the French type of chamber of commerce differ from the American?

Mention some of the most prominent foreign chambers of commerce in the United States.

Give an account of the activities of the National Association of Manufacturers along foreign trade lines.

What are some of the most prominent American, English, French and German over-sea banks?

What is the Lyon Sample Fair?

Describe the work of the Philadelphia Commercial Museum.

CHAPTER VI

INDIRECT EXPORTING

1. *Indirect exporting.*—The development of foreign markets is so expensive and calls for so much preliminary study and investigation that many a manufacturer, with goods appropriate for export and a growing need for an export outlet, hesitates to undertake the venture. This does not, of course, always mean that the products of such firms do not reach foreign consumers. Exporting may take place thru middlemen. This process is sometimes called "indirect exporting."

2. *The export merchant.*—The oldest kind of middleman in foreign trade is the export merchant. Tho at present the export merchant and the export commission house are not as sharply distinguished as formerly, both usually performing the same services, the functions can best be understood by discussing them as if they were wholly different.

The export merchant buys and sells. He buys in the home market to sell in the foreign market, or as is frequently the case, he reverses the process and becomes an importer. As will be explained later, the export merchant many times sells first and afterwards buys in the home market the goods to fill the orders he has taken.

3. *The services rendered.*—Professor Clive Day in "A History of Commerce" says that the early export merchants "found wares in some districts cheap and begging a market because of their abundance, which were rare and highly priced elsewhere; and they could make great profits by exchanging wares so as to put each where it was most wanted." This is essentially the function of the export merchant, and it was an important one to society.

It is said of these early middlemen that they made "great profits." To be sure, but their risks were great also. They bought the goods in one country in order to sell them in another. There was no telling but some other merchant might have done the same thing, and the two ships might arrive at the same port at nearly the same time. This would flood the market and their "great profits" in prospect might turn out to be a "great loss" in actuality. They also ran the risk of the goods being damaged en route, or of losing them altogether thru the perils of the sea, or thru pirates.

The risks were really enormous. There were few who dared or were able to assume them and few, too, who possessed the knowledge of foreign wants, languages and customs, coinage systems and market laws so necessary to avoid excessive costs.

4. *Functional middlemen.*—As transportation companies began to carry goods and merchants no longer accompanied their wares from market to market; as insurance companies were ready to shoulder

the risk of ocean traffic; as the pirates were gradually driven off the seas by powerful navies, the export merchant lost much of his former importance. Many of the services previously performed by him gradually passed into the care of the "functional middleman," the transportation company, the freight forwarder, the customs broker, and the insurance company.

Another reason for the decay of export merchants as a class is the growing tendency to buy by sample or from catalog. Standardization of products, greater confidence in the honesty of foreign dealers, and better means of communication have made it increasingly possible to buy goods unseen. Because of improved banking facilities, the exporter may sell to strangers with whom he will never come face to face.

5. *Export merchants still needed.*—Where buying from catalog or sample is difficult or impracticable, the export or import merchant will continue to play an important rôle. Articles of fashion are not bought from catalog, they are sent from one country to another by firms which may be classed as export merchants. Countries where the unit of industry is small and capital relatively scarce need the export merchant. He buys the products of many small establishments, of home industry, or of the small farmer. In some cases he supplies these small producers with raw material and sells to them on easy terms goods from foreign lands. German export merchants handled in this way much of the Russian and Bal-

kan trade where home industry is still predominant.

Export merchants are still a great factor in England, where they are usually spoken of as "general exporters" or "shipping merchants." It was the export merchants who built England's foreign trade and the powerful organizations which they organized, still control and will continue to control for years the markets of many sections of the world.

It goes without saying that their hold is strongest in the "old lines," such as cotton goods; newer products, such as electrical goods and many lines of machinery, being generally handled direct. Their intimate knowledge of the markets abroad and of the productive possibilities of the English plants, coupled with good-will resulting from decades of sound business policy, make their position secure.

6. *Foreign transaction becomes a domestic one.*— The outright purchase of goods by the export merchant reduces the foreign sale to a domestic transaction, as far as the manufacturer is concerned. The latter does not need to know the foreign consumer. The export merchant assumes all risks. The manufacturer does not worry about possible depressions in the market to which the goods are shipped. Usually he receives his money promptly within a few days after his goods leave the plant. He deals with a firm rated in Dun's or Bradstreet's, and known to him personally and in many cases to his banker. He does not need to bother with the intricate details of custom-house and transportation formalities.

7. *Foreign buyer benefits, also.*—An equally important service is performed for the foreign buyer. In most cases the export merchant offers his goods for sale at a price expressed in the foreign money and delivered at some important trading center with which the buyer is acquainted. The transaction is, therefore, no different for the foreign buyer from the purchase of similar goods from a local firm. The intimate knowledge which the export merchant possesses of the market in which he specializes enables him to grant more liberal credit than would be possible to an exporter whose principal interest was in the home market.

The large shipments which the export merchant makes enable him to secure more expeditious service, generally at lower rates, than an individual foreign buyer could secure. He offers the buyer a variety of articles, thus enabling him to mass his orders and secure the accommodations accorded a large account instead of scattering them. In this respect the export merchant is virtually an international jobber.

8. *Disadvantages of dealing thru export merchants.*—The export merchant is indifferent as to who produces the goods he sells, so long as they satisfy his customers. He may, therefore, shift his purchases from one manufacturer to another, tho this is not easy to do where he deals in trade-marked or patented articles.

Export merchants generally place their orders for unbranded goods. When the goods are in the ware-

houses ready for export the merchants have their own trade-marks attached. Frequently the marks differ for the various countries to which the goods are shipped. This is a common practice among the German and French export houses. To some extent it is also practiced in England.

In Germany the manufacturer attached the exporter's trade-marks and the goods left the factory ready for the steamer and were seldom as much as inspected by the export merchant. In some cases where speed was essential the goods passed directly from manufacturer to steamer fully addressed to their final destination. In the textile trade the English mills generally mark the goods with any brand desired by the buyer. The American mills, as a rule, refuse to use any brand but their own.

9. *Trade-marked goods and export merchants.*— We must not overlook the fact that it takes a great deal of effort and expense to introduce new products into foreign markets. Only after the demand becomes large is there any possibility of profits. Moreover, in the case of trade-marked products, the manufacturer may at any time undertake to supply the foreign buyer direct. In that case, much or all of the export merchant's initial outlay becomes a dead loss. The export merchant is unable to control the quality or character of trade-marked goods. His knowledge of the foreign market may convince him that slight changes in them would increase their sale, but the manufacturer most likely will refuse to make them.

In selling trade-marked articles, therefore, the export merchant is in an unfavorable position.

Selling "short" is a common occurrence with export merchants. It is dangerous work when handling trade-marked goods, because the manufacturer may refuse to sell to him, or delay the filling of orders, if as sometimes happens the domestic demand suddenly increases, and promises to absorb the output.

10. *Export merchant prefers to sell under own trade-mark.*—The handling of identified products is, therefore, a difficult and thankless task. By attaching his own trade-mark the export merchant gains many advantages. He is no longer dependent on any one manufacturer. He may specify his own quality and pattern and give the order to any manufacturer willing to produce the goods at the lowest price. This in fact is the method followed in the English textile trade. The agents of the export firms send in sample patterns for which a demand exists in the foreign markets or against which they have already sold many orders. The "shipping merchant" knows what factories in Great Britain are able to produce that particular pattern and quality of cloth and places the order with them.

11. *The commission house.*—In the United States and Canada a large proportion of the export trade is handled by commission houses.

A commission house acts as a middleman between producer and foreign buyer and takes the place of the export merchant, but in buying or selling it acts not

on its own behalf but as an agent, for a fee. When acting as agent for the foreign buyer, the house is called in England a "commission agent," and in America an "export commission house." When acting as agent for the producer the name "factor" is applied.

Strictly speaking, the house cannot act in more than one capacity in any one transaction; it represents either manufacturer or buyer. In strict honesty, no commission house can charge commission to any but its principal. But frequently double commissions are collected and legally no irregularity can be charged as long as a commission house has protected the interests of both parties. The difficulty of controlling the selling price charged by the commission house in those cases where it acts as selling agent has led many firms to disregard the principle of commission and to invoice the goods to the commission house at a straight price, less than the regular list price by an amount which in European concerns is designated as "discount," *rabat*, or *decort*.

The commission house dating back only fifty years has to a large extent driven the export merchant out of the export field in the United States.

12. *Commission house as agent of buyer.*—The commission house may be a buying agent for some foreign firm. As such its instructions may be specific or general. It may have ordered to buy of a certain manufacturer, or to place the order at its own discretion, within certain price limits. The foreign

importer expects to pay the commission house the amount of the invoice, plus freight and insurance, plus commission. Commission houses sometimes attempt to get also a rebate on their own behalf from the manufacturer. In order to prevent this, foreign importers usually insist on having the manufacturer's invoice transmitted with the commission house invoice. An agreement is sometimes made that the books of the commission house may be inspected from time to time by the foreign house to show the conditions of purchase.

Sometimes the foreign buyer is content to pay the price which the commission house quotes, and places his order on that basis. In this case the commission house no longer acts as the agent for the buyer, but is in the position of a merchant who has sold short. This will be discussed more fully under "indents."

In either case the commission house pays cash for its purchase and finances the foreign importer by drawing 30, 60 or even 90 day drafts, or by open credit. This latter method is not commonly found in the United States, but is widely used in Europe. Open credit is only possible when the relations between the importer and the commission house are of long standing or a permanent nature. Some European export merchants have contracts with foreign importers by which the latter bind themselves to secure all European goods thru their offices. In such cases open credit is commonly used and a maximum amount is determined beyond which the account will

not be permitted to run. In addition to the buying commission an agreed rate of interest of six, eight and even nine per cent is charged on the open balance.

The buyer, or the employe of the commission house who executes the orders received from abroad occupies an important position. He must know the demands of widely separated markets and the peculiar needs of the customers of the house on the one hand, and on the other he must be thoroly familiar with the sources of supply in the domestic market. Unless the desired source of supply is indicated in the order he can place his order where his judgment tells him he can strike a most satisfactory bargain.

13. *Manufacturer and commission house.*—The buyer, when he enters the market, will usually send out requests for quotations to various manufacturers or in the case of goods habitually handled by the house he may place his order with the firm which in the past has given the most satisfactory service.

The manufacturer on his side may approach the buyer in two ways; he may send his personal salesman to show samples and make quotations, or he may put his entire export promotion in the hands of a local export agent. Export agents frequently represent more than one manufacturer in closely allied lines. They sell to the local export merchants or commission houses thru samples and catalogs. In European ports, especially Hamburg, these agents maintain large display rooms. Both visiting foreign buyers and local export buyers find these displays helpful in

making their selections. Many American textile mills maintain no selling organization and depend upon such firms for their domestic and foreign sales. This method is not generally desirable, since it introduces still another middleman and increases the amount payable in commissions.

14. *Creating of foreign demand.*—The problem of creating a foreign demand for a manufacturer's trademarked product is not solved by dealing thru an export merchant or commission house. The manufacturer must start the ball rolling. He may undertake an independent advertising campaign and even send out travelling salesmen, but it is more economical to cooperate with the commission houses and make up a promotion budget for the different markets.

15. *Commission house as selling agent.*—The commission house may undertake an active selling campaign under order. The campaign will be carried on by means of samples, catalogs, advertising and travelling salesmen. A portion of the expense is usually borne by the manufacturer. In this case the commission house becomes an agent and charges a commission on all sales. The manufacturer may confine himself to sending out salesmen to instruct the commission house representatives in the best way of selling his goods. In this way the commission house becomes gradually indistinguishable from the factor, or manufacturer's agent.

16. *Advantages of export commission houses.*—Both manufacturer and foreign buyer are greatly

benefited by the services rendered by these commission houses. The combination of many small orders into one large one, the advantages of cheaper freight and insurance rates and the credit facilities are the principal advantages to the buyer—the same as in buying from an export merchant. The benefit derived from having an experienced buyer to select goods in a far away and highly competitive market is also an important consideration. The manufacturer benefits by making direct domestic sales and by being relieved of annoying details.

17. *Disadvantages of export commission houses.*— Lack of specialization is probably the chief objection to permanent dealings thru such houses. The manufacturer will find that his goods do not, as a rule, receive the selling attention he would like on account of the large number of articles that the house handles.

The tendency toward specialization is increasing. One export commission house will handle only business in South America or South Africa, or will concentrate on textiles or food products. Again, some other house may handle textiles in China, hardware in Australia, and paper goods in England and the Continent. But even so, the specialization in American houses is still relatively slight. England and Germany have gone further.

The commission house acting as buyer for the foreign concern is under a serious handicap when asked to quote prices. The foreign buyer must know what his goods will cost him delivered at his warehouse be-

fore he can make his calculations. This information the commission house is in a position to furnish only when handling staples subject to world prices, or articles upon which it has received binding quotations for a fixed period. The house cannot always know even then what the goods will weigh, what the packing will cost, or what the freight will be. The direct representative of a manufacturer or the salesman of an export merchant may close the deal long before the commission house can obtain the asked for information. Manufacturers dealing thru commission houses, except where these are their authorized selling agents, will often find that inferior goods are getting the orders because they are backed with better service.

Orders received for a certain kind of goods may be filled by substituting "just as good" articles of different manufacture. To provide against this, manufacturers sometimes ask for foreign buyers to send them duplicates of the purchasing order submitted to the house and they reciprocate by sending duplicate invoices to the foreign buyer. In this way direct relations are gradually built up. But many orders come in thru commission houses from sources unknown to manufacturers, and the latter are, therefore, to a large degree dependent upon the good-will of the commission houses.

18. *Commission houses widely used.*—Notwithstanding the disadvantages cited, commission houses are performing a necessary service and are used generally in this country. Even very large American

concerns, which are represented abroad by their own selling organizations, as is the case with the United States Steel Corporation, make use of export commission houses in certain markets which their organization cannot effectively reach.

It is difficult to indicate the extent to which foreign sales are handled direct, thru export merchant, or thru commission houses in the various markets. In a general way it may be said that our trade in Mexico and Canada is handled direct, frequently thru branch establishments; in South America the export merchants and commission houses do a large business, and comparatively little is being sold direct, tho this amount is steadily increasing; in Asia the export merchants are still powerful; in Australia and in South Africa sales are almost entirely in the hands of commission houses.

19. *Financial arrangements.*—The commission charged by these houses varies, according to the character of the goods handled, from one to eight per cent. Where a great amount of detail is required as in the case of shipments made up out of a large variety of small manufactured articles, the amount of detail and the risk involved in not filling the orders correctly is so great that a high commission is usually charged. Staples are frequently sold on a c. i. f. (cost, insurance, freight) basis, and no commission is charged.

The commission house is losing in importance thru the growing tendency on the part of manufacturers to

reach foreign consumers direct. More and more the commission houses are, therefore, abandoning their original sphere as buying agents and are actively cooperating with manufacturers as selling agents.

REVIEW

Differentiate between an export commission house and export merchant.

What causes have contributed to making the export merchant turn his attention more and more towards a commission business?

Is it possible that the increasing number of trade-marked goods has had something to do with driving the old-time export merchants out of the field?

Just what is the relation of a commission house to buyer and seller?

In what respect does selling thru an export commission house fall short of being entirely satisfactory?

CHAPTER VII

DIRECT EXPORTING

1. *Direct relations desirable but costly.*—The question as to whether direct or indirect relations with the foreign market are likely to be the most profitable is one that cannot be answered without reference to other considerations. It depends upon the character of the market at home, the possibilities of development there and abroad, the output and turnover, the capital available, the securing of the proper personnel for an export department, to mention only the most important factors. The last is not the least difficulty in the path of direct exporting. Thus far Americans have been, generally speaking, poor linguists, not inclined to spend long years abroad or make a thoro study of the intricacies of the usages of foreign markets.

The export commission house, with its organization already built and operating, can take on additional products with little extra charge and, up to a certain point, handle them more economically than the manufacturer who has to maintain a separate selling organization for the purpose. But the more rapid expansion promised by the latter method will often be thought to outweigh the initial handicap in financing as well as the early conveniences furnished by the commission houses.

2. *The buyer seeking the seller.*—It is by no means always necessary for the seller to seek the buyer. Members of European importing firms or their representatives visit America to get in touch with the manufacturers of articles in which they specialize. Paris, Hamburg, Leipzig, London and Lyons are visited regularly by buyers from North, Central and South America and to a limited extent from Asia, Australia and Africa. The sample fairs, the information bureaus of commercial museums and of chambers of commerce play important rôles in bringing these buyers in touch with the manufacturers.

In order to attract buyers in large numbers, a city must possess these institutions of commercial intelligence and must offer to foreign visitors the facilities which will permit them to obtain a good bird's-eye-view of the industrial products of the country. The commercial prominence of Hamburg is in no small measure due to the excellent commercial museum, the many export exhibits and the concentration of representatives from the various industrial centers of Germany. The tendency in America has been for the business man to under-rate the importance of exhibits and export museums.

Many of the larger importers of Australia, South Africa and English India maintain permanent branch offices in London. Some foreign offices are found in the United States, but they are relatively unimportant.

3. *Selling by mail.*—Selling by mail in foreign

countries introduces two or three features that are not met in domestic mail selling. The time elapsing between advertising or circularizing and the receipt of orders is relatively, of course, much longer. Then, it is highly important that the advertising matter should be adapted both in language and thought to the readers for which it is written. Nations differ, as we know, not alone in language and laws, but in their customs and outlook upon life. The impression that Americans' "do it now" appeals make on South American merchants is the exact opposite of that hoped for. Arguments which would convince a New Yorker might arouse suspicion in the reader in Amsterdam. To do business successfully by mail with foreign readers, it is indispensable to study their ways and manner of thought and adopt a sympathetic and courteous attitude towards them.

Advertising in export magazines and technical journals will frequently bring surprisingly good results. Where the market is highly competitive and travelling salesmen of other or the same nationality are regularly on the spot, advertising as the sole means of promotion will naturally prove inadequate.

4. *Mail-order business.*—Selling directly to the consumer by means of advertising is a phase of foreign trade which has received too little attention from American firms. The American patent medicine firms seem to be the most energetic in this form of trade development. However, a well known Chicago mail-order house does a large business by mail in

Mexico. The introduction of mail-order methods in European and South American trade may well claim the serious consideration of the American exporter.

Selling by mail is by no means, as many suppose, an American novelty. France, Germany and England have their mail-order emporiums. One large Paris mail-order house sells gowns, hats, jewelry, lingerie, and toys by catalog in every country of Western Europe. The German mail-order houses sold even in South America. The expansion of the mail-order business there, however, is greatly restricted by the fact that some of the countries lack parcel post and money order facilities.

The advantages of mail-order business are obvious. Cash is received before the goods leave the storehouse; small parcels are easily handled and require little customs formalities; the catalog may list and picture many more articles than it is necessary to carry in stock, since they may readily be obtained as soon as a demand for them arises. On the other hand, mail-order trade involves a large amount of detail and the employment of large office forces. A disadvantage of the foreign mail-order business is that packages can be "entered" only at specified post offices, in the foreign country where the customs inspection may be had. It is necessary, therefore, for the consignee if he does not live at one of these places, to appoint a representative there, to receive the goods and forward them.

The European mail-order house frequently sells

c. o. d., or, as it is called on the continent, *contre rembours.* In this case 25 per cent is usually required with the order, the balance to be collected upon delivery. This small payment is an effective check on refusals and will approximate the expenses involved in shipping and returning the article.

5. *Establishing retail stores.*—Retail establishments are maintained in many of the larger cities of Western Europe and South America by some of the well known shoe manufacturers of this country. The method should not be attempted by any manufacturer who has not followed the same policy at home, for retailing is full of pit-falls for the unwary. For selling highly specialized goods, like machinery, on the other hand, in the use of which the customers must be trained, which need the care of specialists to be kept in good repair, and which may perhaps be paid for in partial payments, stores may be the only effective selling method. The largest manufacturers of sewing machines, for example, maintain retail establishments in all parts of the globe. The method necessitates a huge investment in plant and stock, and entails high charges for insurance, depreciation, interest and salaries of sales people. Few articles are adapted to this method of selling.

6. *Consignment.*—The easiest way to introduce goods into a foreign market is to send them on consignment. Foreign firms are usually willing to display and stock goods at no cost to themselves. The more vital question is: will the goods be sold, will the

consignee, not having invested, have the same interest in pushing them, that he has in pushing those in which his capital is tied up?

Unsold goods in foreign markets represent a much greater loss than at home. High freight rates and frequently high duties have added to their cost. It is difficult for the exporter at home to know how to shift the goods to some other place where they may be sold; he has not the knowledge of other nearby markets. He generally must fall back on a forced sale in the locality where the goods were placed in consignment, possibly an auction. This means spoiling the market for later sales.

Naturally the consignor is at the mercy of the consignee. In the sale of manufactured goods not subject to publicly established prices, the consignee may sell at a better price than he is willing to remit to his principal. In case of a forced sale this is no uncommon occurrence. Some exporters set a minimum price below which they will not allow the goods to be sold, but this may prevent a sale at a slightly lower price and in the end involve a greater loss. Consignment is, therefore, not used to any large extent in selling American manufactured goods, except in "dumping" or in the case of transactions which miscarry. It is an emergency measure. In short, the inexperienced exporter should avoid consignments as one of the dangers of foreign trade.

European exporters not infrequently undertake what are called *conto metà* transactions. This is a re-

ciprocal consignment or a commission sales agreement. Usually both charge commission on all sales, while carefully kept accounts draw interest on open balances. Such agreements between firms of different countries are usually for indefinite periods and are undertaken only by houses of established reputation.

7. *Selling thru branch houses.*—When technical experts are needed to assemble goods after arrival in the foreign market, and large numbers of repair parts must be kept in a centrally located place within short distance from the local distributing centers, branch houses are necessary to the exporter.

The branch establishment may become the center of a sales campaign. It may build its own force from among native salesmen and handle all business in its territory. Orders may then be filled from local stock or from the home factory. Many firms quote two prices: one, the lower, for goods shipped from the factory, and the other or higher price for urgent shipments which must be filled at once from the branch house. The additional charge is made to cover interest, insurance, depreciation and expenses of storage.

The branch may, on the other hand, be little more than a storehouse and reshipment center, and the actual selling may be in the hands of an entirely different organization directed from the home office.

The United States Steel Corporation maintains about forty branch offices and warehouses, mostly located at coast points. Large stocks of staple products are kept on hand. The sales are handled thru

branch offices direct, thru branch office agents and thru local houses. Some business, as for example, a large government contract, is handled direct from the home office.

The International Harvester Company maintained in Germany alone seven offices, all of which were provided with warehouses. Each office had an American manager assisted by a German assistant manager, and all offices were responsible to the central European manager located in Hamburg, who also directed the eight branches in Russia and Scandinavia. All Europe was managed from the Brussels office. After the occupation of Belgium by the Germans, the Harvester Company moved its headquarters to Copenhagen. From here forty branches and five factories are supervised.

8. *Branch factories.*—Where competition is keen and tariffs are high, it may be advisable to locate branch factories in the foreign markets. The International Harvester Company had such plants in Neuss, Moscow, Neuköpping. The Ford Motor Company maintains branch factories in England and Canada besides maintaining fifteen foreign offices. The British-American Tobacco Company established factories in China and Germany. The Singer Sewing Machine Company maintains branch plants in Canada, Great Britain, and Russia, and before the War had such plants in Germany and Austria.

Branch factories, by employing the lower paid local labor and escaping the high import duties, cut pro-

duction costs. The proximity to the consumer makes it easier to adapt the products to the needs of the market there. The fact that the products cease, in a sense, to be "foreign" products may also have a salutary effect upon sales. The Singer Sewing Machine Company's policy is to emphasize the domestic nature of their product and to avoid all reference to the foreign connections of the local concern. Few buyers in the country where the company operates branch factories realize that they are dealing with an American enterprise.

9. *Separate companies.*—When the foreign organization has become very large, with many branches and branch factories, it may be desirable in order to secure administrative simplicity to organize a separate company to handle all foreign business. The foreign sales of the United States Steel Corporation, with few exceptions, are handled by the Steel Products Company which has charge of all the foreign offices and operates steamship lines and railroads.

Another method is to organize a separate company to handle the sales in each country or section of the world. Legal consideration may dictate such mode of organization. The laws of many countries being unfavorable to foreign corporations, separate incorporation may be the only way to escape double taxation. The Standard Oil Company controls many such separate companies. The American Radiator Company, in order to combat the German competitors, organ-

ized the "National Radiator G-M-B-H"; the International Harvester Company is known in France as the "Campagnie Internationale des Machines Agricoles de France," and has five branches in France and Algiers.

The financial relations between the parent company and the branch companies differ greatly according to what it is desired shall appear on the balance sheets. Some branch companies buy at cost from the company, others at an arbitrary price, and still others at a price fixed from time to time according to the conditions of the local market. But whatever the financial relations of the branch company to the parent organization, no new element has been introduced into the marketing of the goods; the branch company merely takes the place of the export department.

10. *Selling thru local agents.*—Branch houses are possible only to concerns of large capital. The great advantage of this method lies in the fact that the concern is represented locally, gets reliable market and credit information on the spot, can push sales more intelligently and persistently and can also bring into the transaction of business that personal touch which plays such a large part in building good-will.

Tho local agents cannot take the place of branch houses, they do to some extent perform the same valuable services. It is of prime importance to select the right kind of local agent and it is no easy matter to do so. Manufacturers should be on their guard against the plentiful class of men who, after having

made a failure of other lines of business, establish themselves as representatives of foreign firms as a last chance. A good quality of paper and a high sounding letterhead impress inexperienced foreign business men. The American exporter cannot, however, be negligent in the matter. The local business world will judge the reliability of the firm by the kind of representative it chooses, and its task will be harder if it assumes a handicap.

The manufacturer may choose as agent a large wholesale firm. This has one apparent disadvantage: the competing wholesale firms may not care to handle the article under those conditions and may look around for an export manufacturer making a similar article.

A good agent can be of great assistance to a manufacturer. He should give detailed information about prices, customs, quality, packing, the financial standing of customers and should be expected to make suggestions for the improvement of the product and methods of handling it.

11. *Exclusive agents.*—The manufacturer will usually require the agent to handle no competing lines. This is not always essential; some agencies successfully handle a large number of competing lines. This is notably the case in hardware and machinery, in Europe. These lines require highly specialized knowledge and the agents find it impossible to give the buyer satisfactory service when confining themselves to the products of but one firm. The

elimination of competing lines may, however, act as an incentive to greater activity.

As a rule the agent will try to obtain the "exclusive agency." This is almost always undesirable from the manufacturer's point of view. The agent may merely wish to prevent some other firm from introducing the product and may have no intention of bestirring himself in an unusual way.

The manufacturer may find it advisable to supplement the work of the agent by the use of travelling salesmen or advertising. The agent may under these circumstances decline in importance and confine himself solely to collections, delivery of goods and giving of credit information. An agent of this type rarely receives commission on sales not passing thru his office.

The exclusive agent expects a compensation on all sales in his territory whether they were made direct from the home office or thru the agency. In such cases it is necessary for the home office to keep close watch on all sales thru export commission houses so that the destination of goods may be known. The territory should be clearly defined in the agency contract, copies of which, sworn to before a notary-public, should be in the hands of agent and principal. They will prove useful in case of dispute.

Where the agent is entrusted with all development work his commission is usually increased to compensate him for initial outlays. It is common for an agent to bind himself to spend a minimum sum each

year in promotion. This minimum may be a stated sum or a percentage of total sales; five per cent being considered a reasonable demand in many lines.

The agent may be of great service in handling collection items. The goods may be billed to him with instructions to make no delivery until payment has been received. Especially where no "to order" bills of lading are permitted and also where the banking system is poorly developed, such an arrangement proves very satisfactory; but even where banking facilities are wholly adequate the handling of drafts and documents thru the agent may have its advantages. The agent can use his discretion when goods are refused or payment is not promptly made; the bank is interested only in collecting the item; the agent considers future sales. He is in a position to make exceptions in worthy cases.

12. *Del credere.*—When the agent undertakes to protect his principal against credit risks he enters into a "del credere" agreement. For this service an additional two or three per cent is charged. This del credere agreement relieves the manufacturer, but places a heavy risk upon the agent. Unless the agent has sufficient capital his security may mean very little.

Whenever possible, the American exporter will do well to select an American citizen as his representative. The legal relations and the settlement of disputes are much simplified if agent and principal belong to the same nationality. This is especially true in non-Christian countries, where foreigners are

judged according to special laws fixed by treaty.

In some localities it may be wiser, even necessary, to carry on the business of an agency or branch house thru natives. Only a special inquiry or investigation will enable the exporter to decide this point.

13. *Proposals.*—In many countries material for army, navy, harbor boards and other official and semi-official purchasing agencies forms an important part of the imports. The contracts to be let are usually announced publicly and a date set when all bids must be submitted. In some few countries, as in Argentina, a permanent commission controls the purchasing of all government requirements. The United States Commerce Reports announce the more important proposals opened, while other agencies in this country, like the Philadelphia Commercial Museum, keep their members informed.

Local representation is the most effective method of handling this type of business. It may be necessary to act without delay and secure more detailed information before actually entering a bid. A knowledge of the local manufacturers and their conditions of production is also helpful. Or it may be necessary to use official forms in submitting bids.

In asking for bids from over-sea firms it is customary to allow the competing firms to insert the "fluctuation clause," by which a certain allowance is made for future fluctuations in price. Tho, as a rule, the contract is awarded to the lowest bidder, nevertheless, in order to combat unfair undercutting

and dumping, the practice is becoming more and more general to award the contract to that firm whose bid approaches most nearly the mathematical mean of all bids received. In order to guarantee proper delivery, a payment, or a bond of from five to ten per cent of the value of the contract, is often demanded.

Unfair competition and dumping practices are common in bidding for government contracts, since prices may be cut without fear of injuring the general market.

In Great Britain it is not unusual to find the "British manufacturers' clause," which limits competition to British manufacturers.

14. *Traveling salesmen.*—Direct selling may be accomplished thru traveling salesmen. Such salesmen can never quite supplant local permanent representation, but they may prove valuable in securing up-to-date information in regard to markets and credits, and in establishing a personal relation.

The expenses of travelling salesmen are necessarily high. In South America and the Orient, trading centers are widely separated and much time is spent in travel. The prices in South America are, moreover, much higher than in the United States. To the normal expenses for travel and entertainment must be added the tax which many countries levy on foreign salesmen. This is the case in Sweden, Norway, Denmark, Holland, Switzerland, Portugal, Brazil, Uruguay, Paraguay, Argentina, Bolivia, Mexico, British Colombia, British South Africa, and New

Zealand. In addition to the state or federal tax, municipal taxes are sometimes found. The State of Buenos Aires charges a traveller's tax of $400 and the City of Buenos Aires an additional $500. This tax may be a monthly charge as in Sweden, or a yearly payment as in Switzerland. In France, foreign travelers enjoy the same treatment accorded French commercial travelers in the country from which they hail.

Samples carried by traveling representatives are frequently subject to duty, tho drawbacks are in many cases allowed if re-exportation takes place within a prescribed period. Samples "without value" are usually admitted free, but the definition of this term differs greatly. In Cuba, samples of textiles or carpeting are considered as of "no value" if not exceeding 40 cm. square and provided they have been spoiled for commercial use by slashes of at least 20 cm. length. In most countries "without value" is interpreted to mean of negligible value, or else samples must be conspicuously marked "sample."

In all cases the traveling salesman should provide himself with duly viséd certificates of origin. This is necessary, both to satisfy the requirements of foreign customs services and to enable him to reimport his samples into the United States upon his return.

REVIEW

What are some of the advantages of the mail order business in foreign trade?

What type of concerns can sell effectively only thru branch houses?

Why are consignments to be avoided whenever possible?

What considerations lead to the formation of separate corporations to handle the foreign sales of concerns?

Describe the essential features of contracts frequently drawn up with exclusive agents?

State some conditions usually surrounding government proposals and the making of awards.

CHAPTER VIII

THE CONDITIONS OF SALE

1. *Trade usages.*—The most difficult problems in foreign trade are those connected with the local customs and usages of the different markets. A careful study of these is the very condition of success, tho the American exporter is reputed to be much inclined to ignore them. Their effects are doubtless most apparent in the vast world trade in staples, but custom also rules the trade in manufactured goods in ways that here can only be suggested.

2. *Quantity of goods.*—In foreign as in the domestic trade, goods are quoted in quantities determined by the trade. Goods of large value, such as locomotives, automobiles and pianos, are sold by the piece. Smaller goods, like shelf hardware, is quoted by the dozen or the gross, while larger hardware is frequently quoted by fractions of the dozen, such as half dozen or quarter dozen. Hats, unbrellas and walking canes are usually quoted per hundred, and some of the smaller items of hardware follow the same rule.

A confusing thing is that these conventional numbers do not always mean what they say. In the English lumber trade "standard hundred" means 120

pieces. On the other hand the German merchant who sells a thousand needles never expects to deliver more than 950.

A certain amount of elasticity is usually allowed in the quantity required to fill a contract. In the case of raw products five per cent "tolerance" above and below the quantity called for is frequently allowed for shrinkage or for moisture, while in the case of manufactured products the capacity of the railroad cars or of the packing cases within certain limits is allowed to determine the exact amount shipped.

The relation between the trading unit and transportation facilities is illustrated by the cotton trade. Here one hundred bales is the usual trading unit. Since an average freight car holds but 75 to 90 bales it is necessary to load the remaining 10 to 25 bales in another car of mixed freight. This second car, because of its mixed contents, is subject to much delay, which is often vexatious to both shipper and buyer. A change to a trading unit of 75 bales would do away with much of the trouble and steps are now being taken to bring about this change.

3. *Foreign weights and measures.*—Goods may be quoted in quantities familiar to the exporting country or to the buying country. As a rule, it is best to smooth the way for the buyer by quoting him in his own way. The metric system is widely known and used, but even in those countries where the metric system is legal it will often be necessary to use other measurements.

The multiplicity of weights and measures is confusing. Frequently the same name is given in different countries to units of different values. The *libra* of Argentina is equal to 1.0142 American avoirdupois pounds, of Mexico to 1.0146 pounds and of Venezuela to 1.0161 pounds. In most Latin-American countries 25 *libras* make one *arroba,* while in Brazil it takes 32.

The differences between English and American weights and measures of the same name should also be remembered. The United States, Canada, and British West India use the old Queen Anne gallon while the rest of the English-speaking world use the imperial gallon. In commercial practice six American gallons are accepted as equivalent to five imperial gallons, tho this relation is not quite accurate. In the same way 33 American bushels are understood to be equivalent to 32 imperial bushels. When quoting or when interpreting quotations, it is, therefore, essential to have it clearly understood whether American or English measurements are to be used. Care in the use of abbreviations must also be urged. "Cwt," sometimes carelessly used for 100 pounds in this country, is read in England as "hundredweight" or the equivalent of 112 pounds.

4. *The quality of the goods.*—It is essential that some definite understanding exist between buyer and seller in regard to the quality of the goods which are to change hands. Some goods can be bought on description, possibly from a picture in a catalog, while

other goods must be inspected. In the case of textiles, ceramics, leather goods and many raw products samples are necessary.

Sometimes the buyer will prepare a sample and request the export commission house to secure goods as nearly identical as the market affords. The prospective sellers submit their "contra-samples," and, in case of a sales agreement, are legally bound to produce goods true to sample.

The British Sale of Goods Act of 1893 states that in case of contracts for sale by sample there is an implied understanding that the bulk shall correspond with the sample in quality, that a reasonable opportunity shall be afforded the buyer to compare the goods with the sample and that the sample shall be truly representative of the goods, i. e., that no defects exist in the goods which do not appear in the samples.

In some lines the seller agrees to furnish the buyer with sales samples to enable the latter to sell the purchased goods in his local market while the order is being filled. A definite policy should be followed in respect to these samples. Up to a reasonable amount they may be furnished free, but beyond that point a fixed price should be charged. Some firms make a charge for all samples and add this to the final invoice; others allow a liberal discount on all sales samples. Free samples when distributed on a too liberal scale may prove a costly and unproductive outlay; the sample "collector" not being confined to the domestic trade.

Where a large degree of standardization is possible, selling by sample is unnecessary. Cotton, coffee and wheat are sold by description and number. Each shipment is graded according to standard samples kept in the principal trading centers and readjusted each season. "Santos good average" means the same type of coffee in Antwerp, Liverpool or New York; "Red winter No. 3" is recognized the world over as a wheat of a certain size, firmness and color. A definite price relation is then established between the different grades so that once the price of one grade is agreed upon, the price of all other grades is readily determined. Where no accurate determination of quality is necessary, goods are sometimes sold "f.a.q." (fair average quality) or *tel quel* (as they stand).

Interesting legal questions arise in determining at which point in their journey from factory to foreign buyer the goods pass into the possession of the purchaser. At that point of delivery the risk of change in quality also passes to the buyer. Many products are sold under certificates issued by official chemical or technical establishments, and in the sales agreement the clause "certificate to be final" is inserted. Such goods are inspected before shipment takes place. In the case of agricultural products the "arbitrage clause" is frequently used providing for the inspection of the goods upon arrival by a body of experts who determine the quality and sometimes the quantity delivered. In England this is called a "survey."

5. *The price quotation.*—When the price of the goods is quoted it is important to leave no doubt as to what is included in the price. To say merely: "We offer you our latest model at $50" means nothing. Other questions arise: Where are the goods to be delivered? How are they to be packed? Who is to pay for packing, freight and insurance? What are the conditions of payment?

In offering goods for sale these questions should be clearly and unmistakably answered in the quotation itself. If any is in doubt, the sale may go to a competitor, even at a higher price.

Care should be exercised not to quote different prices to competing firms in the same locality, and not to quote retailers the price quoted to wholesalers. Carelessness in these respects will ultimately destroy any good-will the exporter may have created.

6. *How price is determined.*—The price quoted may either cover the entire shipment or else be a "unit" price. When goods of various qualities are sold under one quotation, a price may be fixed for each quality, or an "average price" may be set. In the latter case the relative amount of each quality is fixed within definite limits. An excess of any one grade is then taken care of according to established rules of premium or rebate. Goods sold under a chemical analysis such as sugar, gasoline or magnesite are quoted on the basis of average contents, with increases or reductions for each percentage over or above average.

In some cases the price is not agreed upon at all. Metals are frequently bought in Europe at an average price which is based upon the quotations of the London metal exchange for that month. In this country zinc ore is bought on the basis of the quotations for metal in the St. Louis market. In Italy, raw silk is also bought at an average price. In some trades a "fluctuation clause" is included in the price agreement to guard against losses due to violent fluctuations of market prices. In the London egg trade the price for the first half of the week is governed by the quotations of the Monday market. Sales made during the latter part of the week are frequently made "subject to the alteration of next Monday's market."

7. *Gross weight vs. net weight.*—When goods are sold by weight it is essential to indicate whether the price refers to net or to gross weight. Usually net weight is made the basis, but where the tare cannot be readily separated from the goods they may be sold "gross for net." In many lines the inner package, paper winding or cardboard boxes, are included in the net weight. To differentiate between this net weight and the actual weight of the goods the term "net-net weight" is sometimes used. When it is virtually impossible to separate the goods from their container, an arbitrary tare is figured. This usually corresponds closely to the normal actual tare, but in some trades it is purposely set higher than normal. In the Hamburg coffee trade a two per cent deduction

is made for tare unless the actual tare is above one and one-half per cent when for every one-quarter additional, the same amount is added to the trade tare. In the Liverpool cotton market, a flat six per cent deduction is made for tare.

8. *Who pays for the packing.*—In foreign trade the high cost of packing goods for transport forms a noticeable part of the cost of the goods. In order to protect metals against the effects of over-sea-voyages, heavy boxes lined with tin, hermetically sealed, are frequently indispensable. It is by no means always necessary for the seller to bear the entire burden. In the sales contract a clause may be inserted by which the expense of packing falls largely upon the buyer. Such goods are then quoted "package excluded," as against "package included," for those cases where the costs are borne by the sellers. Not infrequently the cost of packing is calculated in percentages of the amount of the invoice.

9. *What is included in the price.*—The price may be quoted for the goods as they lie in the warehouse, all charges for transportation, insurance and other incidentals being additional. This is called an "ex-warehouse" quotation or sometimes loosely an "f. o. b." offer. As a matter of fact, "f. o. b.," strictly speaking, should be understood to mean "free on board" the vessel. In order to guard against misunderstandings, it is well to qualify the "f. o. b." clause and to speak of "f. o. b. railroad car our factory," or "f. o. b. steamship New York." This qualification

may also prove helpful in case of litigation, since "f. o. b. steamship New York" beyond any question places the risk of transportation upon the shoulders of the purchasers. Sometimes the term "free alongside" is used to indicate sharply the place where responsibility for outlays passes to the buyer.

If the price is quoted so as to include the freight to the port of destination the term "cost & freight" or "c & f" is applicable. More usual is an offer "c. i. f." which means cost, insurance and freight included. Sometimes the French abbreviation is used, "c. a. f." and infrequently the German "k. f. a." Under these terms the price includes all expenses up to the point where the goods are taken from the vessel at the port of destination. The expenses of unloading, if any, must be borne by the buyer.

A "c. i. f." contract is most usual and most satisfactory all around. The seller is in a position to ascertain both freight and insurance charges, while the buyer can easily find out what unloading and further transportation will cost him. The goods travel, however, upon the ocean at the risk of the buyer and not, as is commonly supposed, at the risk of the exporter. When the cost of unloading is included, the term "free at quay," or "free overside" is used, but this method of quoting is not very common.

In Continental trade, firms go further and quote prices "free godown," or "free in store." In this price is included every possible expense, not excepting import duties. Thoro familiarity with foreign tar-

iffs, local freight and drayage rates makes such quotations possible, and the firm in a position to quote such prices is at a considerable advantage when competing with firms unable to quote any but "f. o. b." prices. Sometimes prices are quoted "in bond," indicating that the goods are delivered in a designated warehouse, but that the seller does not undertake to pay the duty.

In order to remove another uncertainty from the sales transaction, the seller is frequently willing to shoulder any fluctuations in exchange which may occur during the period between the closing of the sale and the date of payment. This is indicated by the form "c. i. f. & e." or "f. o. b. & e." Chinese importers prefer to carry the exchange risks themselves, hoping to make an additional profit by this speculation.

In indent transactions "c. i. f. & c." prices are not infrequent. This means that the commission charged by the middle man is also included in the price. "C. i. f. i. c." goes even further and includes also the interest charges which frequently accumulate to considerable amounts in indents. The indent will be discussed later in this chapter.

10. *Conditions of delivery.*—In closing a sale the conditions of delivery often receive too little attention. Difficulties may arise thru no other cause than neglect to state clearly when and where the delivery of the goods is to take place.

Sometimes delivery may be spread over a rather

indefinite period, "prior to June 15th of this year" or "before the end of this year." In other cases, however, a very definite period, or time, or method of transportation is indicated. "Prompt" is a term used in the English metal trade to indicate immediate or "spot" delivery. "By next steamer," "by steamer—" "To be delivered buyer's choice," "to be shipped during month of—" are terms frequently found and which explain themselves.

A common method of selling staples is "to arrive." The goods are on the ocean but their destination is undetermined. After the sale is completed the seller orders the ship to deliver the goods at a certain port. In this manner wheat on its way from Argentina may be sold in Liverpool by means of an "arrival contract" and ordered to Rotterdam for transhipment to Southern Germany.

11. *The conditions of payment.*—The methods of financing foreign shipments are discussed in detail in the Text on "Foreign Exchange." A few words regarding the condition of payment included in the sales agreement are, however, appropriate here. Apart from the method by which the payment is to take place, it is important to have a definite understanding in regard to the date when the payment is due.

In cases where "documents against payment" or "spot cash" is agreed upon, the payment is due when the goods, or evidences of their ownership, change hands. But this is by no means always the case.

Frequently the provision is inserted: "Documents against payment, but not before arrival of goods." Where in such cases, a certain period of credit is allowed, say 60 days, this period does not begin with the date of presentation of the documents, but with the date of arrival of the goods. The object is obvious; the buyer does not care to pay for the goods, nor to accept the draft, until the goods have arrived, and he can proceed immediately to sell them. The same purpose is sometimes served by "dating" the invoice and the draft. This means dating them a month or two months ahead. Common among British exporters is the method of asking 1/3 with order; 1/3 upon receipt of goods or documents; and 1/3 three months after date of invoice.

Very infrequently "payment when possible" is found. This does not necessarily mean that payment may be indefinitely postponed. The agreement borders on a consignment agreement with this difference, that the exporter has a definite claim upon the foreign firm even tho it should never succeed in selling the goods in question.

12. *The legal basis of the sales contract.*—Considering the uncertainties of international commercial law it is well to include in sales agreements with oversea customers, a clause by which the law under which possible disputes will be judged is indicated. International commercial disputes may be judged under the law of the country where the contract is made, or of that in which the contract is filled. The latter is

more and more becoming the rule. Most of the intricate legal relations between business men of different nations are but insufficiently covered by legal treaties. Special agreements inserted in contracts in so far as they are not contrary to existing commercial law, rules of commercial courts, or commercial usage, regulate the details of international commercial intercourse.

13. *Commerce courts.*—It is evident that disputes will often arise over the question whether a contract has been properly filled. In order to settle such disputes wide use is made in foreign trade of commerce courts. These courts are in many foreign countries maintained by chambers of commerce and their legal powers are clearly defined by law. Special courts sitting on cases in any one trade are maintained by many exchanges. The advantages of the commerce courts are many. The procedure of the court is simple, the list of cases is small and action prompt, the judges are business men, acquainted wth trade usages and costs are negligible.

Business men submit their case to a commerce court at an early time in the dispute and it is easier to arrive at a friendly understanding than when the difficulty is of long standing. In the French commerce courts lawyers are not admitted, much less allowed to plead. In German commerce courts no oaths can be taken and no records are kept of the cases. These restrictions make the procedure of the courts simple, informal and swift. Such courts are found in France,

England, Germany, Austria-Hungary, Italy, Norway, Belgium, Russia and Holland.

In the United States no commerce courts exist, but a large number of boards of arbitration perform similar functions. The best examples are found in the Cincinnati Chamber of Commerce, the Cleveland Chamber of Commerce and above all the Chamber of Commerce of New York. Charles L. Bernheimer, chairman of the latter body's Committee on Arbitration, said in a recent address:

"In all its endeavors, it strives to establish commercial equity, a high regard for commercial honor and ethics, and to prevent the disruption of business friendships. I am happy to say that we have never experienced difficulty with the parties to a dispute over the formal award made by our arbitrators, and we have yet to hear of an instance when in the case of mediation and conciliation, our advice has not commanded confidence and respect.

"Let me make it very clear that our arbitration system rests upon the existing statutory law of the State, under which parties may agree to submit an existing controversy to arbitration and upon the basis of the award may secure the judgment of a court of record."

In most countries appeal from the decisions of the commerce courts to civil courts is possible. The necessity for such action does not often arise and only then when the commerce court falls short of its aim, which is to act "en qualité d'amiable composi-

teur," (in the capacity of a friendly conciliator.)

A significant step in the direction of establishing international commerce courts has recently been made. The Chamber of Commerce of the United States has made arrangements with the Bolsa de Comercio of Buenos Aires, Argentina, to establish a joint committee of arbitration. Disputes arising between American and Argentine firms may be referred to this committee.

14. *Accurate information necessary.*—Before closing a sales agreement it is necessary to know the customer. In foreign trade the exporter, unless he is represented by his own employes, depends upon information secured thru third persons.

Every foreign trade transaction except those in which "cash New York" is demanded before shipment is made, is a credit transaction. "Documents against cash" is a credit transaction, for the goods travel far from home, spend days, even weeks, in transit, and the "cash" will take time to travel back. Even a "T. T." (telegraphic transfer) is a credit transaction in this sense. The exporter is, moreover, always at a disadvantage, once the goods are on a foreign shore.

Reliable credit information is, therefore, a very necessary thing. It is the more necessary since credit insurance in foreign trade is not yet generally possible.

15. *Credit insurance.*—In domestic trade, credit insurance makes it possible for the business man to

protect himself against unusual and unexpected credit losses. The German private banks for years insured foreign credits. The banker undertook to discount the bill "without recourse" when presented. Thus, the merchant obtained absolute insurance not only against the credit risk but also against the commercial risk; that is, the risk of the goods being refused. The rate of insurance varied from one tenth of one per cent to four per cent.

16. *Recent attempts to establish foreign credit insurance.*—Experience has shown that only a large institution can carry the risks successfully. After-the-war trade will be carried on under conditions of the keenest competition. In Hamburg, during 1918, a financial undertaking was organized jointly by export merchants, bankers and transatlantic steamship lines. The aim of this organization was to establish a kind of guarantee fund for the insuring of foreign credits. Commercial paper insured by this institution was to be discounted with any bank in Germany.

In Great Britain, the Associated Chambers of Commerce of the United Kingdom passed a formal resolution in 1916, urging that steps be taken to provide for credit insurance of exports. The British Trade Corporation has arranged with a well known marine insurance company to be its credit insurance department. In the United States, no developments have taken place along this line.

A strong argument for insuring credit thru a large central organization is the pressure which an institu-

tion of magnitude can bring to bear on bad risks and their elimination by a process of blacklisting.

17. *Credit information.*—Next in importance to credit insurance is credit information. R. G. Dun & Company and the Bradstreet Company both maintain a large number of agencies in foreign countries, and also exchange information with the large foreign credit firms. The best known foreign bureaus are: in Paris, Société générale de Renseignements Commerciaux; in London, W. R. Perry, and Stubbs Ltd; and in Germany, W. Schimmelpfeng. The latter was, before the war, the largest European agency.

18. *Information thru "references."*—The commercial credit information service regarding foreign firms is not as detailed and definite as the domestic credit ratings. In order to supplement this information or to save the expense of employing a credit agency, information may be attained thru other channels.

References to one firm by another can never be satisfactory. Credit inquiries hardly ever receive the attention of responsible men in the firm. A creditor firm may have a direct interest in withholding information or misrepresenting the case. Moreover, only those firms are mentioned as references who are certain to give favorable information.

The consular regulations do not permit consuls to give information of a private or confidential nature, or to render an opinion regarding the capital or the credit of houses in their territory.

Many of the various trade-promoting agencies dis-

cussed in a previous chapter maintain credit information departments. The Philadelphia Commercial Museum is well prepared to perform such services. In Canada, the Canadian Manufacturers Association has maintained a credit-information service since 1904.

19. *Credit information thru banks.*—Banks are probably in a better position to secure information regarding credits than any other agency, but they will not part with it to the first comer, particularly if it concerns their own customers.

American business men have been handicapped by the lack of American branch banks abroad. The German and English banks accumulate trade and credit information for their own customers and countries. The documents attached to drafts tell these banks much about the business dealings of firms of other nationalities. The American Locomotive Company and other American firms have evidence that their transactions thru German banks became known to German competitors. Some of these banks went so far as to send copies of invoices to German manufacturers. The establishing of branch banks abroad is, therefore, not a matter of sentiment; it is a vital trade necessity.

In a few isolated cases the seller protects himself by a "letter of trust" or a "letter of lien." This letter is a statement signed by the buyer that the goods are held by him in trust for the seller. Usually in such cases the "letter of trust" covers the period be-

tween the receipt of the documents by the buyer and the receipt of the funds by the seller.

20. *Requests for quotations.*—Export commission houses and export merchants send out requests for quotations to manufacturers, usually as printed forms. Frequently, manufacturers are requested to fill these out in duplicate and to sign both copies. In case the quotation becomes the basis of an order, one of the copies is sent back, signed by the export house. This is called the "confirmation."

The tendency is always for the export house to throw as much of the risk as possible upon the manufacturer. Where a sample is sent with the inquiry and a *contra* or reference sample is demanded, the export house will usually take pains to call attention to the fact that acceptance of this reference sample does not signify acceptance of the goods, even tho they may turn out according to sample. This is intended to make the manufacturer carry the commercial risk of the transaction. The goods are not "accepted" until they reach the foreign customer and are accepted by him.

The manufacturer, on the other hand, may insist that the goods be inspected before they leave the factory, or at least in the port of embarkation. In Manchester the cotton goods manufacturers deliver their goods sold to export commission houses to a "packer," who inspects them and packs them for export. This "packer" becomes then, legally, an agent of the export commission house.

Where instructions regarding packing are given, it is advisable to comply strictly with them. The manufacturers may be held responsible for any damage to the goods resulting from faulty packing and goods may even be refused altogether by the over-sea buyer when not packed or "made up" according to instructions.

21. *The indent.*—In the United States the term "indent" is used among some exporters as synonymous with export order. Indent has, however, a special meaning and, strictly speaking, refers to the kind of export order current in Asia and Australia.

The Asiatic indent is an order to import certain goods, usually at a stated price given by a local dealer, to an importer or an export commission house. Such an order is binding only upon the buyer. The middleman does not bind himself until he has definitely accepted the order. He does not need to commit himself until he has made certain that he can obtain the goods at a price allowing him to make a profit. The length of time during which the middleman may hold the order subject to approval varies according to local and trade usage, but is usually six weeks. The price at which he is asked to import is a c.i.f. price; the price at which he buys is usually an f.o.b. price.

Legally, such an indent is a "contract subject to approval." The form of the indent differs in the various markets but usually it opens with the words: "I instruct you to purchase for me the whole or part of the under-mentioned goods." The middleman

may accept the entire indent or he may refuse a part of it. The goods travel at the risk of the buyer, but the middleman agrees usually to insure them at ten per cent above invoice value, this excess to be paid to the buyer in case of total loss to reimburse him for the "trade loss."

The middleman reserves in most cases the right to dispose of the goods immediately, by auction or otherwise, in case the buyer is not prompt in meeting his financial obligations.

These indents were originated for the benefit of dealers of small capital in localities where wholesalers did not care to keep large stocks of goods for immediate delivery on account of the uncertain and limited demand.

22. *Example of an indent.*—

Indent No. 3584 Calcutta, Sept. 29, 1918.
Morgan & Jones
Calcutta
Gentlemen:

We hereby request you to purchase on our account and risk the whole or any portion of the following goods at the price specified. This indent to remain in force for 3 weeks after its receipt.

1. Delivery and shipment:

The prices are understood c.i.f. & e.

The goods are to be shipped during the month of November by cargo steamer to Calcutta from New York.

Remarks made on samples upon which this indent is based shall be taken as part of this indent.

Each shipment under this indent to form a separate contract.

Insurance to be from warehouse to warehouse for the amount of the invoice plus 10 per cent, claims if any to be made payable in Calcutta.

No objection to be made for delays, caused by strikes, riots or accidents and for late delivery or non-delivery of goods owing to manufacturers' default or of Force Major. Any dispute shall be referred to two European merchants (one to be selected by each side) approved by the Committee of the Calcutta Chamber of Commerce, and the decision of the arbitration shall be final and binding. The losing party to pay the survey fee.

In the case of glassware you are not responsible for breakage.

2. Payment: You may draw on us at 90 days sight or cause your American agents to draw on us with documents attached. We agree to accept the draft upon presentation in exchange for the documents and to honor the draft upon maturity.

In default of our accepting or paying the draft as above agreed we authorize you to resell the goods at your option at public auction or by private sale on our account and at our risk. We furthermore agree to pay you for any loss including all interest and charges and a five per cent commission on the amount of the re-sale and waive all right to a possible profit.

(Follows detailed description of goods with reference to catalogs, price lists, quality, packing, and in this case to proper marking with "Made in U. S. A." to satisfy the regulations of the "Indian Merchandise Marks Act.")

SEHAN BOOS.
(Signature of local dealer.)

The "report" sent by the middleman to the firm from whom the indent is received is usually very simple and of the following form:

Calcutta, Oct. 15, 1918.

Mr. Sehan Boos
Calcutta
Dear Sir:

We reply as follows to your indent No. 3584 of Sept. 29, 1918:

Order No.	Description of goods.	Report.
931	Toothpicks	Accepted
932	Shoes	Accepted
933	Gloves	Refused 15% advance

(Signed) Morgan & Jones

In some markets these acceptances and refusals not only fail to state the prices or other details of the indent, but are frequently not even signed by the firm making the reply.

REVIEW

Give an example of a case where the method of transportation affects the trading unit.

What conditions of delivery are implied in a sales agreement by sample according to the British Sale of Goods Act?

What is the meaning of the abbreviations f.o.b., c.i.f. & e., and c.i.f.i.c.?

Describe the organization and procedure of a commerce court.

What steps have been taken in foreign countries to make foreign credit insurance possible?

What channels are open to the American business man to secure credit information regarding foreign terms?

Describe in detail an Asiatic indent.

CHAPTER IX

THE EXPORT DEPARTMENT

1. *The export manager.*—Many a firm is delaying the establishing of an export department because it finds it difficult to secure a manager. Thus far the majority of these positions have been filled by men of foreign birth whose education and experience more or less fit them for the positions.

The increasing attention which higher commercial education is now enjoying in the United States, and above all the more cosmopolitan outlook which the war has given the American people will make many American young men in the future turn to foreign trade for their career.

Too many American houses seem to have the impression that the mere command of a foreign language fits a man for foreign trade. This, of course, is a mistaken view. An export manager must be thoroly familiar with the article to be bought or sold and know the domestic as well as the foreign market.

2. *Study must be constant.*—No one can become or continue to be an efficient foreign trader unless he is willing to read and study. A business man living in the United States, meeting constantly men engaged in buying or selling the same or similar articles, read-

ing the newspapers, discussing business conditions and tendencies at the club, finds it fairly easy to keep in touch with conditions affecting the domestic market. And yet unless he reads the trade and technical papers and follows the market reports in the newspapers, he will soon find himself slipping back.

To keep in touch with a market three or four thousand miles away, subject to different laws, speaking a different language, and responding to different economic and political conditions, requires constant reading and constant watchfulness. Only a wide-awake man who makes foreign trade his life work and is willing to devote every waking minute to a study of its problems can hope to compete successfully with the European exporters.

3. *The office force.*—Where the export field is large, a division of the territory is necessary. Assistant managers are generally appointed for the subdivisions. It is advisable, however, to shift these assistants periodically, if only for short periods, to prevent them from becoming "rusty" and to make each one of them an understudy to every other assistant manager and also to the general export manager.

The same policy may be applied to the positions of lesser responsibility. The temporary loss in efficiency is more than compensated by the increased ability, morale and spirit of cooperation.

4. *The correspondent.*—One of the most responsible positions in an export department is that of the

correspondent. In the export houses in France, Holland and Germany, it is looked upon as the stepping stone to that of manager.

Some firms make use of professional translators, or depend on the offices maintained by Chambers of Commerce, and by such organizations as the Philadelphia Commercial Museum, and the National Association of Manufacturers, but wherever possible it is better to employ a permanent correspondent. Letters take the place of personal visits; they should, therefore, be consistent in their tone and language. Unless the writer studies the files of old correspondence, he is likely to fall short not only in style, but in subject matter. The ideal arrangement is to have one or more permanent correspondents, and let each correspondent have his group of customers.

For accepting orders, a form letter is not enough. Even when a special blank is used, a separate letter should be attached to it, expressing the appreciation of the firm for the order. Most foreign firms like to know that they are not a "number," but that their orders are appreciated and receive personal attention.

5. *Correspondence.*—Short, "snappy" letters are beginning to lose their effectiveness in the United States; they never were popular abroad. With most foreign business men, politeness is a first essential, and a good graceful style helps a great deal. The letters should as far as possible have a personal note. Circular letters, or letters which have evidently been copied from prepared forms with no attempt to adapt

them to the case in point, are looked upon abroad as little less than insults.

Where a salesman is to visit a customer at a near date a letter should be written announcing his coming. This is the best introduction the salesman could have and adds materially to his prestige. In the same way, whenever the firm engages in something which may interest a group of foreign customers, they should be notified.

The salesmen should be instructed to report details of interest about the customer's personal affairs so that polite reference may be made to these in later correspondence. The business man abroad, especially in the Latin-American countries, never entirely divorces business and social life, and nothing pleases him so much as to find the house 3000 miles away taking such interest in his affairs, as the following characteristic extracts from letters would indicate:

"We have heard with pleasure of the splendid promotion of your son and are sending you by parcel post a small gift which you will be kind enough to hand him with the compliments of our firm."

Or:

"Our Mr. A. notifies us that at his recent visit he found you in sorrow over the loss of your esteemed father. Accept the expression of our most sincere sympathy."

Communications like these help to cement a friendly feeling between distant houses. The interest felt and expressed lifts the business transaction out of

an atmosphere of mere dollars and cents. Competition finds it hard to "cut in" here.

Technical descriptions must be avoided in letters, if only because of the possibility of making mistakes in terms. Where it is necessary to give technical descriptions it is best to employ a professional translator, unless the correspondent has exceptional experience in that line.

Such technical translators specializing in narrow fields can be found in many of the larger cities. Their charges are not high. The usual charge for ordinary translation work is from twenty to thirty cents per hundred words for translations into English and from thirty to forty cents for translations from English into a foreign language. Technical translations may cost as much as a dollar per hundred words.

American firms are careless in the way in which their letters and documents are signed. In foreign countries the signature of the firm is sacred. When the head of the firm is not there to sign, the function is performed by the oldest and most trusted employe who has been appointed and legally documented to this office. Such an employe is proud of his position and on his visiting card makes mention of the fact that he is "procuratie-houder" (Dutch); "charge de procuration" (French); "Procuratore" (Italian); "procurador" (Spanish) or "procurahälter" (German), of his firm.

The use of a rubber stamp or a signature of some minor employe; or worse, of the name of the man-

ager signed by a clerk or stenographer, with initials appended, are practices which are regarded abroad as wholly unbusinesslike and in the nature of an affront. They will destroy the confidence of foreign firms in a house employing them.

6. *The mail.*—In a foreign trade department looking after the mail means more than pasting postage stamps on envelopes. The clerk in charge of it should be well informed regarding the dates of sailing of the most important over-sea mails. He should bear the responsibility of supervising the dispatching of all letters, samples and documents in time for the last collection. This is an important matter, for missing the mail may mean a delay of two or even three weeks. If the documents do not arrive at the port of debarkation on or before the time of arrival of the goods, storage charges accumulate.

In foreign trade it is customary to send out at least one duplicate copy of each letter or document on a later boat to avoid delay thru possible loss of the mail. Sometimes the copy is inclosed with the next letter, or it may be dispatched independently. Care should be exercised that the copy actually does go on a later boat. The indifference of the average export departments of American houses in regard to sailing dates often leads to the absurd situation that original and copy reach their destination by the same boat.

Business concerns abroad usually employ envelops of light but strong paper and nearly square in shape

to distinguish the foreign outgoing mail from the domestic. This lessens the likelihood of affixing postage stamps of the wrong denomination. Foreign firms complain of the annoyance caused by having to pay "penalty postage"—twice the ordinary postage—on American mail.

Samples may be sent by mail at a lower rate, but must be bona fide samples of no sales value. Pairs of articles cannot be sent as samples, but must be sent by parcel post and accompanied by the proper customs documents.

Letters are usually routed irrespective of the direction which may have been written on the envelop. The German mail was an exception, when carried by a German steamer, and carried only the domestic rate.

7. *The credit man.*—The foreign credit man's function is not essentially different from that of the domestic credit man. He merely has to obtain his information from more widely scattered and different sources. He must take great pains in checking the terms of payment allowed in the various markets. The house generally establishes a fairly fixed policy in each market, and it is his duty to exert constant supervision over the sales agreements made, so that this policy may be strictly followed.

8. *The invoice clerk.*—The invoice clerk has a responsible position since the technique of calculating all the invoice items is extremely involved and exacting. He should possess a definite knowledge of trade

usages in various markets, of the policy of the house, and of special agreements between the firm and its foreign customers.

9. *The shipping clerk.*—The responsibility of choosing the shipping route, of providing for the cargo space, of filling out the shipping documents, and frequently, also, of taking out the marine insurance, rests with the shipping clerk.

An information file is frequently kept by him which serves to supply the necessary data from which to calculate c.i.f. quotations.

10. *The information file.*—A special record is generally kept of the different rules to be followed in making various shipments. It is necessary to have available for ready reference such information as the number of invoices required, the consular fees, the sailing dates of steamers, the length of time required for the journey, the dates of sailing of mail steamers and special port charges, if any.

Foreign and domestic magazines will yield many items which may prove of future interest. Much may be gleaned from trade journals, consular documents and especially from the reports received from traveling salesmen.

Carefully checked mailing lists are an important feature of the file. Numerous export directories are published in this country and abroad, from which with proper judgment, good mailing lists may be compiled. Among the best directories in the Eng-

lish language may be mentioned, Kelley's "Directory of Merchants, Manufacturers, and Shippers of the World."

The Bureau of Foreign and Domestic Commerce has printed mailing lists of dealers in various parts of the world. The Philadelphia Commercial Museum and the numerous trade organizations can also supply valuable lists.

The card index clerk or librarian should build a collection of catalogs of competing firms of various nationalities serving the same foreign markets.

11. *The traveling salesman.*—The traveling salesman abroad must do much more than just sell. He must be the eyes of the firm in the foreign fields. Beyond the ordinary sales reports, detailed information should be required from him concerning the climatic conditions, the prices of accommodations, the habits of the people, credit standing of customers, competition, and such general data as will aid the home office in understanding the conditions which confront him.

An export department equipped with this information will have no difficulty in keeping in close touch with its foreign customers, in understanding their problems and in planning future sales campaigns. The salesmen who are to follow in the field will have a complete picture of what they will encounter before leaving the home office. They will be able to prepare themselves for the most effective method of approach and they will be able to select the best time for their

visit. The correspondent will also find this information valuable when introducing a personal touch in his letters.

12. *The use of cables.*—Cable messages are always expensive. From New York to Western Europe the rate is approximately thirty-five cents per word, but to other parts of the world the price is considerably higher. In order to save money, codes should be used. The Western Union Cable Code and the A. B. C. Code are in international use. There exist, moreover, a large number of special codes for the various trades. It is customary to mention the code used in the letter-head of the firm. Many firms devise private codes and in their catalogs include code words by means of which orders may be cabled.

13. *The accounting records.*—The scope of this text does not call for a detailed discussion of the accounts to be kept in an export department. It will usually prove best to keep the records relating to the export business separate, and to carry controlling accounts for them on the general books of the firm.

Accounts with customers, agents or branch-houses are frequently in foreign currency. Several ways of handling them are in use. One way is to charge the accounts in which foreign money is involved by entering in parallel columns the actual amount of the foreign currency and the corresponding amount in American money on the basis of the par of exchange. The off-setting entries on the accounts kept in American

money are all made on the basis of the par of exchange.

When a payment is made, the difference between the actual equivalent in American money and the amount on the basis of the par of exchange is debited or credited as the case may be, to an account, "Exchange." When closing the books at the end of a fiscal period, a similar entry is made to this account to cover the rise or fall in exchange. Some accountants prefer to ignore this last entry in their balance sheet, since it represents a purely speculative loss or gain which should be ignored until actually liquidated. This method has the advantage of simplicity.

Another method generally used in English export houses is to charge accounts with the equivalent in English money on the basis of the rate of exchange current at the time the entry is made. When the books are closed the balance in foreign coin is then converted into English coin on the basis of the rate of exchange of the day. The difference between this balance and the balance actually found in the columns containing the English equivalents is then debited or credited to the exchange account. By the use of this method, the exchange account is not a mere bookkeeping device, but its balance shows the actual gain or loss on account of exchange during the period.

14. *Additional records.*—If business is carried on "open account" it is customary to pay and to draw interest on all items. The European export houses

usually apply a different rate of interest to the credit side of the account from the one applicable to the debit side. This necessitates the keeping of elaborate "accounts current" with each customer; the principle is similar to that which governs the keeping of call loan accounts in the American banks.

The accounting department should keep a "record of orders" in which the history of every order received is kept. This record must include the date when the order was received, when acknowledged, when work was started, when the order was placed with outside firms, when delivery was promised, when actually made, when shipping permit was actually received, when the shipment should have been delivered, when it was delivered at the dock, the sailing date of the vessel, and the date of the shipment advice sent to the foreign consignee.

A record of this kind will prove valuable for fixing responsibilities for delay, as well as a guide in making binding promises in future contracts as to delivery.

15. *The need for accuracy.*—The American business man has, on the whole, little patience with minute calculations and hairsplitting. This has earned for him the reputation abroad of being careless and inaccurate. The European business man, on the other hand, has an almost superstitious respect for accuracy in details. It cannot be urged too strongly that accuracy in filling orders, in following instructions, in making statements and in rendering bills is a vital element of success in dealing with foreign customers.

REVIEW

Why is constant reading even more essential for the foreign trader than for the domestic dealer?

Outline the functions of the correspondent and explain why his position is highly important.

What should be the work of the mailing clerk?

Describe the relations of the salesmen to the home office.

Give two methods which may be followed in handling items in foreign currency in home office books.

How should the branch office accounts be kept at the home office?

CHAPTER X

COOPERATION FOR FOREIGN TRADE

1. *Foreign competition will be keener than ever.*—Mr. Frank A. Vanderlip, former president of the National City Bank of New York, said some time ago:

> So long as the war goes on, the world will be so tipped askew, in all probability, that the gold holdings of other countries will continue to fall into our lap. As the gold falls it will be added to our reserves. As those reserves grow, so will grow our credit structure based upon them. When the war is ended we will find all Europe depleted of its gold, staggering under a weight of inflated bank and government paper and under the direct stress to rebuild its stock of gold. The point of attack will be our gold reserves. The methods will be every means known to trade and commerce by which merchandise, securities, and credits can be exchanged for gold.

These words describe the situation in which the United States found itself after the war from the point of view of the banker. From the point of view of the foreign trader, it may be stated in slightly different terms. The United States, thru the inflow of gold and the consequent increase in the price level, had become a good selling market, but a poor buying market. The level of wages, the prices of raw material and of transportation had advanced, placing the

American business man in a very unfavorable position to do business abroad.

The situation became the more serious since the amount of gold which had flowed into the banks was but the first instalment of a debt which our allies owe us. On October 30, 1918, these loans were as follows:

Great Britain	$3,745,000,000
France	2,165,000,000
Italy	1,065,000,000
Belgium	80,000,000
Russia	325,000,000
Greece	15,790,000
Cuba	15,000,000
Serbia	12,000,000
Roumania	6,666,666
Liberia	5,000,000
Total	$7,434,456,666

This amount and the interest must be paid in gold or in goods.

The differences in price level will aid the foreign nations in settling their bills by the importation of goods, or will make it possible for them to settle their account thru triangular trade. They can sell in the Orient or in South America and pay the United States with the proceeds. This will make the competitive struggle in the foreign field extremely hard for the American business man.

2. *The way of defense.*—If the American business man is to meet this competition he can do so only by

superior management; labor, raw material, and power all being high. American business has in the past competed successfully in lines in which, at first thought, competition seemed most hopeless, on account of the heavy labor costs. But better machines, better factories, better fed, better educated, and better spirited workmen, better cost systems and better selling methods have more than once offset the disadvantages of high prices and high wages.

They are all the more needed now when the European nations are keenly awake to the situation. The more general utilization of natural resources abroad, the greater development of hydro-electric power in France, England, Norway and Italy; the reorganization of factories on the American plan for production *en series,* as the French call it, are all significant of the new day.

3. *Combination makes for economy.*—Unless an American manufacturing concern is large enough to maintain an extensive sales organization, it may prove more efficient and economical to leave the selling to a separate organization which specializes in that. By uniting in a cooperative selling campaign, manufacturers may reduce their individual attention to distribution and with it their outlays for that purpose and be able to concentrate upon production.

4. *The position of the small concern.*—The principal reason why the International Harvester Company, the Corn Products Company, and the U. S. Steel Corporation have been successful in foreign

trade is because they are large. No small organization could have built up the necessary selling organization. The small manufacturer cannot afford to develop the foreign trade field. He may even not be able to fill foreign orders when they come to him. They are often for large amounts and to fill one such order, which might never be duplicated, a small plant would have to sacrifice something of its domestic trade. As Mr. Morrow, of the Federal Trade Commission, says:

> The small producers of cement, for example, are not now able to get very much foreign trade for two reasons. In the first place, they cannot afford to maintain representatives in South America, but such representatives are necessary in order to sell cement. As a result these companies have to sell thru an exporting commission house. In the second place, they cannot take large orders; no one of them can guarantee deliveries of the quantities required. If they undertook to do it they would have to sacrifice domestic business in order to fill the contract abroad.
>
> Individually they cannot fill large contracts, but collectively they can; collectively they could take care of any such contracts; one or two companies could not do it, but 20 companies could take care of it. At present there are only two or three companies large enough to engage in foreign trade.

Mr. Edward Y. Webb, chairman of the Committee on the Judiciary of the House of Representatives, gives another example:

> In my State we have a great many small cotton mills; in my district there are over one hundred, with a capital of from $100,000 to $200,000, that cannot maintain a selling agency

in China. The capital is too small, and it would cost them too much in proportion to the output to do so. But if the 64 cotton mills in one county were permitted to have a common selling agency in China, they could sell their goods at the low price they are now selling them, and at a decreased cost of distribution, and they could make more money out of it at the same price they get now, and it might have the tendency further of lowering the price in this country.

5. *An analysis of the advantages.*—It is not only the small concerns which cannot enter the foreign field independently which can profit from combination. The large corporations already in the field may for the same reasons derive great benefit from cooperative effort.

In the proceedings of the Fourth National Foreign Trade Convention the advantages of cooperation for export are stated as follows:

Maintenance of highly organized export service at minimum cost to participants, employment of American advantages in advertising, technical demonstration and "follow-up" methods.

Improved credit information and financing of foreign sales, more advantageous traffic contracts thru greater and regular tonnage, superior facilities for customs brokerage, warehousing, etc.

Assumption by the cooperative organization of credit extension which manufacturers, dependent upon a quick turnover of capital, are unable to provide.

Survival of initial losses, fatal to an individual company, which are sometimes incurred before American goods gain a foothold.

Division of foreign business upon an agreed basis adapted to the mutual interest of all participants from the stand-

point of sustained labor employment, and ability to produce at a price to meet foreign competition.

6. *Foreign competition is along national lines.*—American business men need to cooperate, not only because it makes for greater efficiency, but because the business men of other nations are already organized in this way and are reaping the advantages of cooperation. The war has served to emphasize the need for an efficient mobilization of all the resources of the nations. The growth in national consciousness has drawn the old organizations closer together and has given rise to many new ones.

Mr. Paul M. Warburg, in a public address made by him at the beginning of our participation in the European War, while he was vice-governor of the Federal Reserve Board, stated this with particular pointedness.

> More than ever before will states become solid industrial and financial unions effectively organized for world competition, driven by the necessity of perfecting a system of the greatest efficiency, economy and thrift in order to meet the incredible burdens created by the war.

7. *The point of attack.*—In 1913, the last normal year before the war, the United States exported in crude materials and partly manufactured goods, $1,140,565,462; in foodstuffs, $503,111,639; and in manufactured products, $776,297,360. Our factories had to buy abroad crude materials and partly manufactured goods amounting to $984,612,129.

The European nations depend for their industrial life on raw materials and on markets for their goods. These nations are prepared for the international competitive struggle by strong cooperative organizations which are built to accomplish three ends: to depress the market for American raw materials thru cooperation of buyers; to undersell American manufactured products; and thru cooperation of sellers to force up the prices of raw materials needed by American mills.

8. *Recent developments.*—Cooperation in buying and selling are firmly established abroad. From every corner of the civilized world evidence accumulates that the American business man will meet nationally organized business rather than individual competitors. Sir Richard V. Vassar Smith, Chairman of Lloyd's Bank, before the Institute of Bankers of Great Britain, said: "The day of small industries on individual lines is gone. Manufacturers and traders must organize for united effort."

The British Trade Corporation was organized to accomplish this end. Another development was recently announced by U. S. Consul Franklin D. Hale:

> British manufacturers and producers are having their attention called to a new scheme on national lines relating to the special encouragement and development of export trade. The scheme is to form a corporation under the operation of which the members may be mutually benefited by the increase of over-seas trade, especially in new markets.
>
> It is proposed to make available for all members of the British Manufacturers' Corporation (as it will be styled) the services of men of first-class ability as representatives

abroad, who will possess a thoro knowledge of business conditions in the different countries to which they may be appointed, and where they will reside. They will be known as agents in charge. It will be their business to find and appoint men as local selling agents for individual firms, look out for new trade openings, report on the general reputation of prospective customers, and generally superintend the business interests of all firms in the organization. To increase trade will be the sole object of their employment by the corporation, and they will be expected to meet the requirements of the corporation or be replaced by more capable and energetic representatives.

There is in present contemplation an organization of a thousand members subscribing £100 or £200 (roughly $500 or $1000) per annum. With such a fund, and an organization of such character, very strong inducements could be offered to the right kind of men to become these foreign agents in charge.

A similar scheme has taken definite shape in Canada. The Export Association of Canada was organized in 1915 for the purpose of securing orders for its members, aiding them in securing representation abroad, making collections, and financing export orders.

The Norwegian Government has established a Department of Industrial Supply under a cabinet minister to provide for and to distribute raw materials for Norwegian industries and to develop the native resources of iron, copper and nickel ores. Along with this government activity has gone the establishing of large private combinations. One of the most formidable is a new hydro-electric syndicate with a capital of $15,450,000 organized for the exploitation of a

number of water falls and the production of carbide, nitrates, carborundum and other electro-chemical products.

Among recent developments elsewhere are the Swedish International Trading Company, the Netherlands Export Company, the Sheffield Steel combine, with a capitalization of $50,900,000; and the joint selling company organized by the Scotch oil trade.

9. *Buying combinations.*—Numerous buying combinations existed among foreign firms. These were of two classes: the cooperative wholesale societies, found both in Great Britain and on the Continent, and the large commercial combinations of England and Germany.

In 1913, 3636 retail cooperative societies existed in the United Kingdom with a membership of 3,327,125 and a combined capital of $314,528,723. These societies combined as early as 1863 in establishing the Cooperative Wholesale Society, Ltd., for the purpose of cooperative buying and, since 1872, also for manufacturing. This Society maintains offices in New York, Montreal, Spain, Denmark, Sweden, West Africa and Ceylon. In cooperation with another society, the Scottish Cooperative Wholesale Society, organized in 1868, with capital resources in excess of $23,000,000, it operates tea estates in Ceylon and Southern India, as well as cocoanut groves in Africa. The New York office alone buys yearly over $8,000,000 worth of American products, chiefly wheat, ba-

con, lard, leather, dried fruits and canned goods.

Before the war the metal trade was very strongly organized by commercial combinations. The copper, silver, zinc and aluminum market abroad were thus controlled by German, English and French firms, many of which, thru interlocking directorates, operated in the closest harmony.

The copper trade had been ruled for years by a German buying organization, of which the Metallbank and Metallürgische Gesellschaft A. G. of Frankfort-on-the-Main forms the headquarters. This combination controlled and owned subsidiary companies in Germany, Spain, France, Switzerland, Belgium, England, Africa and Australia, and controlled large mines and smelters in the United States and Mexico.

The effect of such buying combinations was stated by Mr. John D. Ryan in the following words:

> In ten years ending 1913 a number of large copper-producing companies of the United States sold thru their several selling agents 5,560,000,000 pounds of copper, of which 2,580,000,000 pounds were sold to domestic consumers, and 2,980,000,000 pounds to foreign consumers, bringing a total of $821,000,000 in money. The foreign buyers paid an average price of 14.38 cents per pound, delivered at foreign ports; the domestic buyers paid an average of 15.21 cents per pound, delivered at home or .83 cent per pound more than the foreigners paid. This represented about one-half of the copper produced in this country, and was consumed almost one-half at home and one-half abroad.
>
> If we take it for granted that other producers sold at about the same average price, the foreign manufacturers

who put labor and profit into our copper for the markets they were supplying had the advantage of a handicap of fifty millions in that period against the American manufacturers, in spite of the fact that producers of raw copper have had no tariff protection or any governmental help to keep domestic prices higher. The handicap is simply the result of the advantage combined foreign buying has had as against competitive selling.

10. *Selling organizations.*—More common than buying combines are the selling combinations of foreign firms.

In England combinations are found especially among the engineering firms, tho the Cotton Spinners and Doublers Association, and the Cambrian Coal combination are examples in other lines. The engineering combinations are usually made up of non-competing firms producing complementary products. The British Engineering Company of Egypt, the Egyptian Engineering Company, Ltd., and the British Manufacturers, Ltd., are instances. The Anglo-Chinese Engineers' Association consists of some forty non-competing firms, and has as its purpose the establishing of "go-downs" (warehouses) under Chinese-speaking Englishmen in various districts for the selling of the products of the firms and for bidding on plant and government construction.

In France coal, cotton goods and laces are sold on this cooperative plan. In 1910 the dye industry was organized on a similar basis.

In Italy the Anglo-Sicilian Sulphur Company, or-

ganized in 1905, controls about 60 per cent of the world's output of sulphur.

In Switzerland the Free Society of Swiss Chocolate Factories controls export prices, while before the war a similar combination between Swiss and German firms, the Cocoa-buying Co. (Ltd.), located in Hamburg, bought directly from the planters. Condensed milk, laces, and Swiss cheese are all exported by such cooperative undertakings.

In 1913 the Swiss Trading and Industrial Company for Brazil was formed to act as a selling organization for a group of non-competing firms producing machinery, and a similar organization, especially for Argentina, was founded under the name Société Suisse d'Exportation.

11. *The German cartel.*—In no country has the movement for combination received the strong backing from the government which it received in Germany before the war. As early as 1836 a cartel or combine was organized in the German alum trade, but the movement did not assume large proportions until the beginning of the period of protection, about 1879.

Cartels were organized for various purposes. The "territorial cartel" was organized to divide the markets among its members, the "price cartel" determined the selling price, the "production cartel" allotted to each factory a certain percentage of the total production. These cartels were all free agreements between firms maintaining their independence. They

aimed to control the market, to eliminate cut-throat competition, to present a united front in international competition, and to improve the competitive position of its members thru the economies resulting from a cutting of the selling overhead.

Many combinations in other countries are organized along lines similar to the German cartel. The syndicat in France is an organization of the cartel type; many of them are rather of the type of the comptoir, an incorporated trading company owned by manufacturers and buying from its members to sell in foreign markets.

In Germany, whenever a lack of homogeneity of plants and enterprises existed and the formation of cartels was, therefore, difficult, a community of interest leading to virtual control of the market was secured by a higher type of organization. The trade in electrical goods is a case in point. More than 80 per cent of this trade is controlled by two great companies, Siemens-Schuchert, and the Allgemeine-Elektricitäts-Gesellschaft called "A. E. G." in the trade. About 45 per cent is controlled by the latter.

Up to 1914, the A. E. G., with 800,000,000 marks of capital, maintained 38 installation offices, 12 engineering offices, over 100 branches in other European countries, and 60 branch offices in the rest of the world, thru which everything in the electrical industry from lamps and motors to street car systems for entire cities were supplied. In addition to its control of the electrical trade, these companies were,

mostly thru interlocking directorates, closely connected with many banks. The A. E. G. was in this way related to banking establishments representing $523,234,000.

There is hardly a line in Germany which is not in a similar fashion controlled by cartels or similar combinations. The report of the Federal Trade Commission on cooperation in American export trade says:

> Half of the $150,000,000 worth of coal and coke exported annually was sold by one central selling agency, maintained by the great Rheinisch-Westfälische coal syndicate, of which some of the Prussian Government mines are members, and which control the bulk of all the coal and coke produced in the Empire. Practically all the rapidly increasing iron and steel export business was handled respectively by the single selling agencies of the Roheisen-Verband and the Stahlwerks-Verband, the aggressive and closely connected unions of German iron and steel manufacturers. The coal and iron and steel combinations have fostered foreign business thru export bounties and other means.

12. *Position of American exporter.*—The American business man entering a foreign market faces, therefore, powerful groups of foreign concerns, backed by groups of banks, aided by railway and ship concerns, and supported in many cases by the various governments. Until recently it was impossible for American business to meet this kind of competition on anything like an equal footing. Combination, with consent of the government, in many cases fostered by the government, had to be met by American

business men forced to battle alone, as individuals. Tho anxious to combine, they were forbidden to do so by the laws of this country which made any combination aiming to partition the market or to fix a sales price illegal.

The Sherman Anti-Trust Law of 1890 was based on this principle of enforced competition. Section 1 of this law reads:

> Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several states, or with foreign nations, is hereby declared to be illegal.

The Wilson Tariff Act of 1894 also declared all combinations which aimed to control the import trade contrary to public policy, illegal and void.

The application of the Sherman Act to foreign trade was somewhat doubtful. In the case of the American Banana Company vs. the United Fruit Company it was held that the law did not extend beyond our own boundaries, but business men hesitated to combine for export trade for fear of exposing themselves to suspicion of illegal practices at home. The Clayton Anti-Trust Law of 1914 made no mention of foreign trade. The position of the exporter was, therefore, left in doubt.

13. *The Webb-Pomerene Law.*—The question was finally settled by the passage by Congress of the Webb-Pomerene Bill, April 10, 1918—a bill "to promote export trade and for other purposes." This

act declares first of all that nothing in the Sherman Act "shall be construed as declaring to be illegal an association entered into for the sole purpose of engaging in export trade." The export association is thereby declared legal, but the same section continues to explain that such associations must not in any way enhance or depress intentionally the domestic prices. The administration of the act is placed in the hands of the Federal Trade Commission, the powers of which are enlarged, enabling it to take such legal action as shall be necessary to prevent the use of unfair methods of competition.

Every association organized for export trade must file with the Federal Trade Commission within thirty days after its creation, a written statement of the location of its offices, a copy of the articles of incorporation, and the names and business of its officers and stockholders. A yearly report containing the same information must be submitted, while the Federal Trade Commission is given the power to require further information.

This act received the warm support of every one who has an interest in the future of American foreign trade.

14. *The effect of the Webb-Pomerene Law.*—Cooperation for export trade having now been legalized, we may expect a definite expansion in the direction of cooperation. Even before this American firms had combined in their selling campaigns abroad, but in a half-hearted fashion, in some cases secretly

and in all cases haunted by a fear of offending the dread Sherman Act. Practically all these efforts were restricted to dealers in non-competing lines, where cooperation could hardly have been considered "in restraint of trade."

American hardware dealers for years have sold in the Australian market thru a selling combination which handled non-competing lines at a low cost.

The Phoenix Horse Shoe Company of Chicago in combination with other concerns in related industries, such as nail-manufacturers and manufacturers of tools of various kinds, sent a representative to South America. Similar cooperative work was found in the cotton goods, boots and shoes, the leather goods and the electrical business.

The National Paper and Type Company has been the cooperative selling agency for non-competing firms in the paper and printing industry. The company has been operating for about twenty years, and in 1916 had seven foreign branches. It is capitalized at $1,200,000 and its yearly expenses amount to $400,000.

15. *The attitude abroad.*—Because of a misconception as to its purpose and effect, the passage of the Webb-Pomerene Act aroused suspicion and fear in the South American markets. *La Epoca,* the government newspaper in Argentina, said: "South American markets will be left to fight as best they can against the same commercial practices which are prohibited between the States. It is not likely we

shall find tolerable that which the States have prohibited because it was noxious to them."

The fact that American manufacturers are now permitted to do what their foreign competitors have been allowed and even urged to do by their governments for decades, cannot have such dire effects as to the South American or other markets as are anticipated. That goods will be sold in foreign markets from time to time for less than in the domestic market is undoubtedly true. This can hardly be claimed to be a new development. The German cartels have done this very thing for years and the American copper dealers have been forced to do so right along. Many American firms have been in the habit of doing it. Sewing machines, shoes and many other products sell for less abroad than at home. Goods are sold abroad for what they will bring. Combination need not aggravate this situation. The new law is primarily intended to aid the small manufacturer. Big firms, like the United States Steel Corporation, the Standard Oil Company or the American Tobacco Company, do not need it.

16. *The form of the new combinations.*—One of the first results of the new law was the organization by forty-four manufacturers of a combination to develop foreign trade, known as the Allied Industries Corporation. The member firms represent combined domestic sales of $100,000,000 yearly and include makers of textile goods, heating and lighting systems, chemicals, leather goods and toys.

Similar organizations will from now on be formed in increasing number. They may take the form of a common selling agency, or a separate corporation may be formed after the fashion of the French *comptoir,* or again a division of territory, or of orders, or a pooling of profits, may be the sole object sought.

The combinations may regulate prices or limit the sales. As long as in such organizations they do not intentionally affect domestic trade, or make themselves guilty of "unfair competition" and as long as they conform to the regulations laid down by the Webb-Pomerene Law, the combination is within the law.

REVIEW

What factors contribute to making international competition keener than ever?

Outline some of the advantages of cooperation for foreign trade.

Describe the various forms of the German cartel.

What are some of the most powerful foreign export combinations?

Define the position of the American exporter before and after the passage of the Webb-Pomerene Law.

CHAPTER XI

MAKING AN EXPORT SHIPMENT

1. *Follow instructions.*—American exporters seem to have an innate constitutional objection to following instructions. In foreign trade that is poor business. When a certain method of packing is indicated, or a certain route over which the shipment is to be forwarded, the instruction should be followed without question. Failure to do so may result in refusal of the shipment or unexpected expenses.

2. *Packing and import duties.*—The instructions received from the foreign buyer may be based upon years of sad experience. This is especially true in regard to packing. The consignee knows, for example, what methods of packing will assure the most favorable treatment by the customs officials. It is better to defer to this knowledge.

In many cases not more than one kind of an article should be packed in one container. This is in order to allow the less valuable articles to obtain the benefit of lower import duties. In other cases it pays to dismantle the article if in parts, and ship the parts separately. Where the duty is levied on weight it is necessary to study the regulations in respect to methods to be followed in determining the net and

gross weights and pack the goods with these considerations in mind.

The weight and value of the container may influence the duty to be paid. For example, the rules prevailing in Chile are:

> By "ordinary receptacles" are to be understood earthenware or glass pots, bottles or flasks, iron, zinc, tin, copper or lead drums, wooden cases, cardboard or tin plate boxes, and any other containers of indispensable use. Receptacles not usually employed for the goods they contain and having a separate value or use shall be considered as dutiable merchandise and appraised separately.

3. *Packing and transportation.*—As shipments for export are subjected to rough handling, the packing should be done securely. Only new and strong boxes should be used, and screws rather than nails. The boxes should be protected by metal straps or wires as a protection against pilfering. Many steamship companies refuse shipments of small articles such as shoes, cigars, and wines, unless so protected. In order to protect the shipment against moisture it is desirable to use water-proof wrappings. Sometimes conditions may call for a water and air-tight box. Such extraordinary outlays are frequently charged to the foreign buyer. All metal parts of machinery should be covered with vaseline or grease and then wrapped in oiled paper.

It is a good rule to make the weight and size of boxes as small as is consistent with strength and con-

venience. Inland transportation is poor in some parts of South America, and boxes sent to these places should not weigh more than 100 pounds each, two of them making a well-balanced load for a pack-animal. In most cases, however, size and weight are not of prime importance, tho it is well to limit the weight to about 250 pounds and the size to a cubic yard.

A number of small boxes are sometimes crated together for ocean transportation and the shipment broken up in small lots on arrival, for inland transportation.

4. *Marking boxes.*—Old boxes should not be used, such as have been weakened by handling and unpacking and bear old trade-marks and addresses. Neither should the contents of the box be marked on the outside. That is not only unnecessary, but is an invitation to pilfer.

The instructions in regard to marking received from the foreign buyer cannot be too closely followed. It is important to number consecutively all cases making up a shipment. The numbers are placed along with other identification marks on the invoice and aid in discovering shortages, tracing lost cases and forwarding or assembling machinery. Some countries require the use of stencils in marking. In many of the Latin-American countries gross and net weights must be indicated on all cases, expressed in kilograms.

Chile requires the use of a stencil in marking every

package, and the placing of a shipping number on each package to correspond with the number appearing in the consular invoices and other shipping documents. The gross weight in kilos must be indicated on each package and also on the bills of lading. Japan, on the other hand, has no regulations on marking and weights. Haiti requires that the net weight, in pounds, and the name or initials of the consignee be marked on the package, and so on. The regulations of each country should be studied and followed.

The various steamship lines have their own regulations regarding packing and marking, as for example: "Shipments packed in bags or sacks must not exceed 200 pounds gross weight." "Boots, shoes, jewelry, guns, revolvers, cigars, silverware, and valuables of any description must be packed in iron-strapped and sealed cases, and facsimile of seal must appear on the bills of lading and receipts." "Arrangements must be made in advance for shipments measuring more than 30 feet in length or weighing more than 4000 pounds (without regard to length)."

5. *Invoicing the shipment.*—The invoice should contain full descriptions of the goods and give the number of boxes, method of packing, number of articles in each container, marks on the boxes, weight and dimensions of the cases. The invoice should also state the price per unit of measurement, the total price for each group of articles and the total price of the entire shipment including discounts and additional outlays such as freight prepaid, insurance, consular

fees and other extras. It should be clearly stated whether the prices mentioned are f.o.b., c.i.f., or calculated on some other basis.

The foreign invoice is almost always signed. In many countries the signature is necessary to give it legal force. It is customary to add at the bottom "e. & o. e." (errors and omissions excepted), but this is an empty form; it does not protect the shipper.

Foreign invoices should always be numbered and the cable code in use in the office should be indicated.

Some markets require great detail in the invoices. In Australia it is necessary to give the cost of packing, the freight from interior points to seaport, and the actual cost at the factory, no matter whether goods are sold f.o.b. or c.i.f. Similar provisions are found in other countries. Sometimes the extra charges, such as cartage, insurance, and cablegrams are brought together on a separate "statement of charges" which bears its own number and also the number of the invoice. On this statement the total of these charges is accumulated and added to the amount of the invoice, giving the grand total. This statement is signed by a responsible member of the firm. Such a statement of charges must accompany the invoice and the draft to the bank.

It is sometimes necessary or desirable to send other documents with the invoice. Some of these are: a list of cases and their contents, their measurements and when goods are sold on analysis, the certificates of chemists or experts.

Invoices and accompanying documents are usually made out in triplicate, one copy going to the customer, one to the bank with the draft, and one into the shipper's file.

6. *Engaging freight room.*—The shipment having been checked against the invoice, the next step is to engage freight room. It is customary to do this as soon as it is known when and what quantity of freight will be dispatched. Frequently the exporter will make certain of the freight space and the rate before he makes a sale. Then he knows how much the goods must bring c.i.f. and is able to guarantee delivery at a definite date.

In asking for freight rates, it is necessary to be specific. The size of the boxes or cases, their number, weight, contents and value must all be indicated. When the rate has been received the shipper must act promptly, usually by telegraph, or lose his option. After acceptance, the freight space is formally reserved at the rate quoted. Goods must then be brought alongside for loading, otherwise the "dead space" will be charged for.

7. *The shipping permit.*—After the steamship company has been notified of the acceptance of the option it sends the shipper a "shipping permit." The permit must be presented before the goods can be delivered at the wharf. In case of small shipments the permit is given to the driver of the delivery truck.

8. *Forwarders.*—Where a freight forwarder is em-

ployed, he should be notified when a shipment has been sent in his care. The blanks supplied by most forwarders are in the form of a letter, giving notice to them that certain goods described in detail have been dispatched. Careful instructions must be given on the following points: the name of consignor, consignee, and person to be notified upon arrival of the vessel; destination and value of shipment, amount for which insurance must be taken, to whom the premium must be charged and to whom the certificate must be sent. Finally, it is necessary to indicate to whom the various incidental expenses are to be charged and the number of copies of the final bill of lading to be sent to the consignee and to the consignor.

9. *Shipper's export declaration.*—Many steamship lines will not issue a shipping permit until the shipper has made out a shipper's export declaration or issue bills of lading or permits until the declaration is in the possession of the steamship company. The reason for this is that the government holds the steamship companies liable for each shipment appearing on the manifest for which no export declaration can be produced. In the freight contracts there usually is a clause giving the company a lien on the goods actually loaded on the vessel for which the necessary documents were not provided.

The regulations require the shipper himself to fill out the export declaration in part. If the exporter is located inland he may appoint an agent at the port

of exit and notify the collector of customs to that effect or by indorsement on the declaration itself. Where a freight forwarder is employed, the simplest procedure is to authorize him to act in the capacity of agent for customs services. If no freight forwarder is employed a "customs broker" may be engaged for that purpose. Many firms located in the large harbor cities combine a number of functions and act as functional middlemen and agents.

The form of the Shipper's Export Declaration is here given:

U. S. Treasury Department.
Customs Cat. No. 7525.
T. D. 35969.
C. D., Nov. 20–15.

ORIGINAL—(For United States customs use only.)

SHIPPER'S EXPORT DECLARATION

OF MERCHANDISE SHIPPED TO FOREIGN COUNTRIES OR NONCONTIGUOUS TERRITORIES OF THE UNITED STATES

Clearance will not be granted until shipper's declaration has been filed with the collector of customs. U. S. Government export statistics are compiled from this declaration and it must be correct.

Merchandise shipped by .....
(Name of Shipper.)

Address: No.... Street..... City..... State.....

From ..... Via.....
(Place of original shipment.) (Carrier from interior point, if any.)

For shipment on the .....
(Name of carrier. If vessel, give name, motive power, and flag, if known.)

From ..... To port of .....
(U. S. customs port of exportation.) (Foreign port or place.)

Country of .....
(Final destination of goods.)

Marks and numbers.	Number and kind of packages.	Articles. Describe the articles fully, as canned pork, printed cotton cloth, printing presses, apples, etc. General terms such as meats, dry goods, machinery, fruits, etc., will not be accepted. [Read instructions on back.]	Quantity. State number of pounds, tons, gallons, yards, etc.	Value. At time and place of shipment. U. S. products, including foreign goods altered or remanufactured in the United States.	Value. At time and place of shipment. Foreign products in same condition as imported.

This form may be delivered to carrier in sealed envelope.

Waybill or manifest No.... Date..... Declaration C. H. No....
(May be filled in by carrier if desired.)

I, the undersigned, solemnly and truly declare that the above statement is a complete, just, and true account of all merchandise shipped by the party named on board the vessel, car, or vehicle, and to the place or country named above, and that the description and quantity of each article is truly stated, and that the values thereof are the actual costs or values at the time and place of shipment for exportation.

Sworn and subscribed to before me

at .....

on ....., 191

.....

Signature:

.....
(Actual shipper, owner, or consignor.)

This oath to be taken before notary, collector of customs, or officer authorized to administer oaths. This declaration must be signed, but oath need not be taken on exportations to Canada or Mexico by car, vehicle, or ferry, or on shipments by vessel to any country if total value of items does not exceed $100.

On the back of the document are found the following instructions:

PREPARATION OF EXPORT DECLARATION

(Read Carefully.)

1. THE SHIPPER MUST PREPARE THIS EXPORT DECLARATION and subscribe to the oath before a customs officer, notary, or other authorized officer. The declaration must be signed by the shipper,

but the oath may be omitted on any shipment for exportation by vessel if the total value of the items does not exceed $100 and on shipments regardless of value to Canada or Mexico by car, vehicle, or ferry. If the declaration is executed by an agent for the shipper the authority must be in writing on this declaration or other document filed with the Collector. The values and names of shippers may be omitted from the duplicate, but must always appear on the original. The original is for the use of customs officers and will be treated as confidential and information not disclosed without written authority of the shipper or his agent. Export statistics are compiled from these declarations and all data required on the prescribed form must be furnished.

2. DOMESTIC ARTICLES EXPORTED.—The value of all articles grown, produced, or manufactured in whole or part in the United States must be stated in the column of "U. S. Products."

3. FOREIGN ARTICLES EXPORTED.—The value of articles of foreign origin shipped out of the United States in the same condition as imported must be stated in the column of "Foreign Products." If foreign articles are subjected to any process of manufacture or alteration in the United States they become United States products and must be reported as such. Thus: Imported raw sugar refined in the United States should be reported as a domestic product.

4. THE VALUE OF ARTICLES to be stated is the selling or invoice price or the actual cost or true market value at the time and place of shipment for exportation.

5. DESCRIPTION OF ARTICLES EXPORTED must be accurate and complete. General terms such as dry goods, groceries, meats, machinery, millinery, etc., will not be accepted. In the case of cheese the declaration must state whether filled or unfilled, oleomargarine whether colored or uncolored, butter whether pure, adulterated, or renovated.

6. THE KIND OF PACKAGES as boxes, barrels, etc., and the net weight exclusive of outer coverings, must be specified.

7. THE TOTAL QUANTITY of each article expressed in the usual measure of pounds, yards, gallons, etc., must be stated. Domestic spirits exported must be stated in gallons of 50 per cent alcoholic strength.

8. THE COUNTRY OF FINAL DESTINATION OF GOODS—that is, the country to which goods are sold—must be shown. Special care should be exercised to state the final destination of goods shipped through Canada to Europe, and of goods to be transhipped in the United Kingdom, the Netherlands, Germany and France en route to other countries.

9. INSPECTION CERTIFICATES.—Process butter or butter adulterated or renovated must be accompanied by certificate of purity issued by the United States inspector of dairy products. Certificate of inspection must be presented to the Collector for meat and meat food products exported when required by the regulations of the Department of Agriculture.

10. EXPORT SCHEDULE B may be obtained free of charge from the Bureau of Foreign and Domestic Commerce, Department of Commerce, Washington, D. C., and will be of much assistance to exporters.

As will be noted, the declarations are to be made in duplicate. One copy, the "original," to be filed with the customs house where the information will be treated as confidential, the other, the "extract," is for the use of the carrier and need not contain the value of the shipment nor the name of the consignee. The purpose of these declarations is to aid the government in compiling export statistics.

10. *Shipments from interior points.*—When shipments are sent from interior points to a foreign port, the export declaration is to be delivered to the carrier when a thru bill of lading is issued. In case of exportation to Canada and Mexico by railroad, the railroad company must deliver to the customs officials a copy of the way-bill and the shipper's export declaration.

If for any reason export declarations are delayed immediate clearance may be granted to vessels and immediate exportation by railroad allowed. The master of the vessel must then file an application for immediate clearance, and execute a bond to produce the complete manifest on the next business day after the departure of the vessel, with all shippers' export declarations, or, in case where such export declarations cannot be produced, a *pro forma* declaration made out by the master of the vessel. Similar regulations apply to shipments by rail to Mexico or Canada.

11. *Special regulations.*—No shipper's export declaration is required for merchandise withdrawn from bonded warehouses or shipped in bond. In this case the inspector at the port of exit will issue a "permit to lade." This permit must be attached to the manifest when the master requests clearance for his vessel.

When a shipment is divided the amount shipped on each vessel must be endorsed on the declaration. When exporting process butter, or adulterated butter, a certificate of purity must be secured from the United States inspector of dairy products. No meat or meat products can be exported unless a certificate of inspection from the Department of Agriculture is presented to the collector of the port.

12. *Drawbacks.*—In order to secure a refund of duties upon reexportation of articles for which import duties have been paid, it is necessary to file a claim with the collector of customs at the port of exit before the goods are placed on board the vessel. The manufacturer need not have been the original importer of the goods.

It is best to employ a drawback agent to attend to the technical details. Where such an agent is employed the manufacturer mails him a notification of the shipment made and fills out a "notice of intent" which accompanies the goods and is filed with the collector of customs. The notice of intent contains the marks and numbers of the packages, a description of the merchandise, and a statement of the materials or parts on which drawbacks are claimed. The claim is

then investigated by agents of the United States Treasury Department. In order to facilitate inspection, manufacturers are required to keep special records open to the agents.

13. *Export licenses.*—During the war American exports and imports were placed under the control of the War Trade Board for the purpose of excluding unnecessary imports, conserving indispensable materials within the United States and preventing goods produced in the United States from reaching the enemy. The exporter had to secure an export license from the War Trade Board before the carrier would issue a shipping permit.

Some of the neutral countries established boards to supervise the importation and prevent the reexportation of goods. These boards were recognized by the allied governments. Examples were the N. O. T. (Netherlands Overseas Trust) and the S. S. S. (Société Suisse de Surveillance Economique). Great Britain allowed vessels carrying only goods consigned to these boards to pass without search.

The steamship companies in consequence demanded that shippers first secure certificates issued by these trusts allowing the goods to be consigned to them, which certificates were issued only after the consignees had produced bond that the goods would not be reexported to the Central Empires.

14. *Certificates of origin.*—After all the documents which make exportation from the United States possible have been procured, it is necessary to provide the

documents required by the customs regulations of the country of destination.

One of those most commonly required is the "certificate of origin." This is a document certifying that the goods have been produced in the United States. It is needed in order that the goods may take advantage of the lowest rates to which they may be entitled by tariff treaty. The form is simple: the name of the consignor, the name of the consignee, and a description of the shipment form the body of the document to which oath is made.

The certificate must receive the *visé* of a consul of the country of destination. The French consulate charges a fee of $2.20 for this, the Italian $4.40 and the Spanish $0.40.

15. *Consular invoices.*—It is generally necessary to prepare also a "consular invoice" covering the details of a commercial invoice and sometimes additional data. It is usually intended to facilitate the work of the foreign customs officials.

These documents should be filled out with care. If special instructions have been received from the foreign buyer, they should be followed to the letter, no matter how illogical they may seem.

The forms for consular invoices are obtained, like other consular documents, from the consuls concerned. They must be filled out in the language indicated. In most cases the language of the country of destination is required, but not always. Brazil permits

English as well as Portuguese; Cuba, English and Spanish; Haiti, English and French; and Portugal, English and Portuguese. The consignee at times indicates his preference. Translators are easily found. Some consulates translate documents, but their charges are usually high.

The number of invoices required differs. France requires one, Nicaragua, six; Guatemala, five; and Portugal, three.

The consular fees for invoices are sometimes determined by the value of the merchandise. Peru charges two per cent of the value, Mexico three per cent, Cuba one per cent, and Chile about three fourths of one per cent. Such "fees" are merely disguised import duties. Mexico requires four consular invoices made out in English or Spanish, for which three per cent of the value of the invoice is charged. As a rule, a straight fee is charged. France charges $2.50, Brazil $2.20, Argentine $2.00, irrespective of the value of the shipment. Shipments by mail need not be provided with consular invoices. In a few cases, as with Santo Domingo, Nicaragua, Panama and Costa Rica, the consignee pays the fee at the port of entry.

16. *Certification of bills of lading.*—Some other countries require that one or more copies of the bill of lading be certified by the consul. Uruguay, Bolivia, Chile, Costa Rica, Cuba, Peru, Honduras and San Salvador require that all bills of lading shall be certified. In other countries the number is definitely

stated: in Paraguay one, in Haiti five and in Panama four. The certification is, of course, only necessary for "negotiable" bills of lading.

17. *Non-dumping certificates.*—These are required in Canada, New Zealand and South Africa. The forms of the declaration differ but their purpose is the same. The exporter declares that his goods are sold at a price not lower than the home market price and are not subject to unusual discounts. In case the value of the goods is less than the home market price or in case unusual discounts are allowed, a statement to that effect must be made showing the value for home consumption and the usual discount allowed.

18. *The railway bill of lading.*—In shipping by rail from inland points it is essential to mark the railway bills of lading "for export" or "lighterage free." Goods designated in this way, provided they are shipped in carload lots and are not unusually heavy, are entitled to free delivery alongside steamers. This may mean a great saving in cartage and lighterage fees, amounting to almost as much as the ocean freight.

Such goods are also entitled to free storage, for about ten days usually, at the port of exit. Tho these privileges apply only to carload lots, the car may be broken up in three lighterages within the free lighterage district. To secure these privileges and avoid delay all inland transportation charges should have been prepaid and the proper documents promptly forwarded to the agents at the port of exit.

Where less than carload lots are shipped the cartage and ferrying must be looked after by the agent of the exporter, preferably a freight forwarder.

19. *Thru bills of lading.*—Goods may be dispatched from inland points by rail on "thru bills of lading," which may route even to the final inland destination. The railroad company engages the ocean freight room and the shipper is relieved of all detail. Not infrequently, however, the freight charges on such shipments will prove higher than the shipper could have obtained himself. Consequently the method, tho simple, cannot be recommended until the railroads develop greater economy and efficiency in the service.

The bills of lading issued by steamship companies from the port of exit to the foreign inland point are also called thru bills of lading. It is not usually possible for carriers in this country to quote favorable rates on such thru shipments. The foreign buyer generally prefers to look after the transportation inland himself.

"Steamship thru bills of lading" for trans-shipment at a foreign port are issued by some companies. The large "omnibus" companies, like the German, with a network of lines covering the entire world, were formerly in the best position to offer this service. Where the carrier is not able or willing to issue such transhipment bills of lading, the shipper can obtain this service thru a freight forwarder.

When transhipments are made the risk is borne by the shipper. The carrier in the ocean bill of lad-

ing disclaims all responsibility except in case of gross negligence. A commonly found clause reads: "To be trans-shipped at . . . to . . . at carrier's expense, for account and risk of the shipper." Transhipments should be avoided whenever possible, for they increase the danger of damage and delay.

20. *Delivering goods to carrier.*—All necessary documents having now been prepared and the invoices checked with the goods, the latter may now be brought to the pier or put alongside the vessel by a lighter.

When the goods are extremely heavy the shipper must make the necessary arrangements to have the goods hoisted on board. A derrick or lighterage company may be engaged for this purpose, or special arrangements may be made with the carrier to perform the service at a special rate. The freight rates quoted by steamship companies are applicable only to cases of less than two tons. At transhipment points as well as at the port of destination, similar extra charges may be necessary. Steamship companies are usually able to quote freight rates including these extra payments.

During the European War when freight space was at a premium, freight forwarders, who "knew the game," frequently succeeded in obtaining cargo space for their clients by bringing the goods alongside in a lighter and hoisting them on deck while the goods of the shippers not personally represented or lacking in experience, remained on the pier.

21. *Dock receipt.*—The goods are delivered to the

carrier's freight clerk who, after seeing the shipping permit, allows them to be placed either on board or on the pier. When goods are shipped "in bond" they should not be delivered before the steamer is prepared to receive them.

After the goods have been delivered the carrier's clerk issues a receipt. The shipper fills out the receipt, the carrier's clerk checks it with the shipment and upon finding it correct signs it. Care should be exercised to record in the receipt all marks and numbers on the cases, to describe the contents of the cases and to have the receipt made out in the name of the person to whom the final bill of lading will be issued. Partial deliveries against these receipts are sometimes written on the back with date and time of delivery, and special receipts are issued for separate deliveries. The final dock receipt is issued when the delivery is complete.

22. *Goods on the dock.*—The dock receipt usually states that the goods were in "apparent good order" when delivered and the carrier assumes no responsibility for them while on the dock. The insurance policy taken out against the shipment should, therefore, cover not only the risk of ocean transportation, but also the danger of fire or damage while the goods are on the dock. For this a special arrangement is necessary, as the ordinary marine policy does not cover goods awaiting shipment, nor while being hoisted into the vessel.

23. *The bill of lading.*—The shipper must now

make out the bills of lading upon forms supplied by the carrier and present them for signature. The details of the bill of lading are discussed in another chapter of this Text.

The accompanying reproduction of a typical bill of lading should be carefully studied by the reader. The carrier is liable, as will appear from the exceptions noted, only when the vessel is unseaworthy, either as to hull or crew, and when negligence in stowing or loading can be proven. The number of copies which must be prepared is determined by the number required by the consul, the shipper and the carrier.

In the case of a shipment to Argentina, for example, three copies are required to be certified by the consul for which a fee of $2 is charged. These certified copies are signed by the carrier and indorsed by the shipper and become negotiable bills of lading. In all, probably eight copies will have been made out. The three negotiable copies will be attached to the draft offered to the bank for collection, the five non-negotiable copies are disposed of as follows: two to the carrier, one going to the captain, the other being filed in the steamship office; one to the consul; one retained by the shipper; and one sent to the consignee.

The steamship company will not sign any bills of lading unless the dock receipt covering the shipment is returned and unless all requirements in regard to certificates of origin, export declarations, consular invoices or export license have been complied with and a custom house clearance is presented. Freight is, as

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WHITE STAR LINE

NEW YORK AND LIVERPOOL

Received, in apparent good order and condition, by the OCEANIC STEAM NAVIGATION CO. (Limited) from

.....to be transported by the Steamer.....

now lying at the port of NEW YORK, and bound for LIVERPOOL, with Liberty in addition to any Liberty expressed or implied in this Bill of Lading, to proceed to and use any port or ports, in any rotation, for any purposes whatsoever whether in or out of or beyond the customary or advertised route, and all such ports shall be deemed to be included in the intended voyage—and to carry goods of all kinds dangerous or otherwise, and to carry Live Stock and/or cargo on deck, or taking shipment by said steamer in and upon a following steamer

being marked and numbered as per margin, shippers weight, (quality, quantity, gauge, contents, weight and value unknown) and to be delivered in like good order and condition at the Port of

LIVERPOOL, (or so near thereto as she may safely get) unto.....

or to his or their assigns, he or they paying freight, primage and charges immediately on discharge of the goods, without any allowance of credit or discount, at the rate of

.....Shillings.....pence Sterling with 5 per cent. primage per 40 cubic feet.

.....Shillings.....pence Sterling with 5 per cent primage per barrel.

.....pence Sterling with 5 per cent. primage per bushel of ..... lbs. gross weight delivered per.....

.....Shillings .....pence Sterling with 5 per cent. primage per ton of 2240 lbs. gross weight delivered.

FORWARDING CLAUSE:—Applying only if the within goods are contracted for delivery beyond Liverpool.

The goods specified in this Bill of Lading are to be forwarded to.....

by .....at the expense of the Steamship Company, but subject to the conditions of the Carrier by whom the goods are forwarded. Upon delivery of the goods from the ship's tackle at Liverpool the Steamship Company ceases to act as carrier, but is constituted forwarding agent without responsibility. The through freight is charged

In respect of and includes only the ordinary expenses of transit to .....

Rates being owner's risk rates when same are quoted by carrier by whom the goods are forwarded, in event of the usual means of conveyance being interrupted or suspended, the and the delivery of the goods thereat being delayed, impeded or prevented, forward the goods to the nearest Steamship Company may in its sole discretion and option, forward the goods to the nearest available place, this to be considered a final delivery, or may store and warehouse the goods. The charges and expenses connected therewith, and any other charges incurred by the Steamship Company in addition to such ordinary expenses of carriage and transhipment shall be paid by the consignee, and the Steamship Company may exercise a lien on the goods until such expenses are paid.

WAR CLAUSE

If and so long as the ship is insured against war risks, with a war risks insurance association under or in connection with a war risks insurance scheme of His Britannic Majesty's Government, the ship, in addition to any liberties expressed or implied in this bill of lading, shall have liberty to comply with any orders or directions as to departure, arrival, routes, ports of call, stoppages, or otherwise, however given by His Britannic Majesty's Government or any department thereof, or by any person acting or purporting to act with the authority of His Britannic Majesty, or of His Britannic Majesty's Government, or of any Department thereof, or by any committee or person having, under the terms of the war risks insurance on the ship, the right to give such orders or directions, and nothing done or not done by reason of any such orders or directions shall be deemed a deviation.

SHIPPERS MARKS

Attention of Shippers is called to Sec. 125 of the Criminal Code of the United States (Act of Congress March 4th, 1909) which provides that whoever shall deliver to any common carrier for shipment or transportation, or shall transport from one State, Territory or District to another State, Territory or District, or to a foreign country any explosive or other dangerous article without plainly marking the true character thereof on the outside of the package containing the same, or without informing the agent of such carrier of the true character thereof at the time of receiving the same for carriage or transportation, shall be punished by a fine of not more than $2,000, or imprisoned not more than 2 years, or both.

Strictly marked on the outside thereof the contents thereof; and it shall be unlawful for any person to deliver or cause to be delivered to any such carrier or agent for transportation any such explosive or other dangerous article without informing such carrier or agent of the character thereof, and the provisions of this section shall be in force on the high seas, on board any vessel or vehicle engaged in interstate or foreign transportation, and anywhere within the jurisdiction of the United States. Whoever shall knowingly violate or cause the violation of any of the provisions of this section shall be fined not more than $2,000, or imprisoned not more than 2 years, or both.

.....	*Ft.* ..... *in.*	*per 40c. ft. £*.....
.....	@	*per*.....
.....	@	*per 2240 lbs. £*.....
	5 per cent. Primage	.....
	Charges	.....
Ship's Mark Red.	*Total £*	.....
Shipper's Marks Unknown.		

FREIGHT as per margin, or as per Rates being owner's risk rates when same are quoted by carrier by whom the goods are forwarded, in event of the usual means of conveyance being interrupted or suspended, the and the delivery of the goods thereat being delayed, impeded or prevented, forward the goods to the nearest Steamship Company may in its sole discretion and option, forward the goods to the nearest available place, this to be considered a final delivery, or may store and warehouse the goods. The charges and expenses connected therewith, and any other charges incurred by the Steamship Company in addition to such ordinary expenses of carriage and transhipment shall be paid by the consignee, and the Steamship Company may exercise a lien on the goods until such expenses are paid.

IT IS MUTUALLY AGREED that the steamer shall have liberty to sail with or without pilots; to tow and assist vessels in distress; to deviate for the purpose of saving life or property that the carrier shall have liberty to convey goods in craft and/or lighters to and from the steamer at the risk of the owners of the goods; and, in case the steamer shall go into a port of refuge, or be prevented from any cause from proceeding in the ordinary course of her voyage, to tranship the goods to their destination by any other steamer; that the carrier shall not be liable for loss or damage occasioned by fire from any cause, or whensoever occurring; by barratry of the master or crew; by enemies, pirates or robbers; by arrest or restraint of princes, rulers or people, riots, strikes or stoppage of labor, by explosion, bursting of boilers, breakage or shafts, or any latent defect in hull, machinery or appurtenances, or unseworthiness of the steamer, whether existing at time of shipment, or at the beginning of the voyage, provided the owners have exercised due diligence to make the steamer seaworthy; by leaking, frost, decay, putrefaction, rust, sweat, change of character, drainage, leakage, breakage, vermin, or by explosion of any of the goods, whether shipped with or without disclosure of their nature, or any loss or damage arising from the nature of the goods or the insufficiency of packages; nor from inland damage; nor for the obliteration, errors, insufficiency or absence of marks, numbers, address or description; nor for risk of craft, bulk or transhipment, nor for any loss or damage caused by the prolongation of the voyage, and that the carrier shall not be concluded as to correctness of statements herein of quality, quantity, gauge, contents, weight and value unless specially checked by the Line. General Average shall be settled according to York-Antwerp Rules. The owners have exercised due diligence to make said steamer in all respects seaworthy and properly manned, equipped and supplied, it is hereby agreed that in case of danger, damage or disaster resulting from fault or negligence of the pilot, master or crew in the navigation or management of the steamer, or from latent and other defects, or unseworthiness of the steamer, whether existing at time of shipment, or at the beginning of the voyage, but not discoverable by due diligence, the consignees or owners of the cargo shall not be exempted from liability for contribution in General Average, or for any special charges incurred, but, with the shipowner, shall contribute in General Average, and shall pay such special charges, as if such danger, damage or disaster had not resulted from such fault, negligence, latent or other defects or unseworthiness.

IT IS FURTHER AGREED that in addition to the liability of any other person as owner of the goods shipper shall be liable for all contributions in general average and special charges payable in respect of the goods, whether or not he be liable therefor as owner of the goods.

"2.—IT IS ALSO MUTUALLY AGREED that this shipment is subject to all the terms and provisions of, and all the exemptions from liability, contained in the Act of Congress of the United States, approved on the 13th day of February, 1893, and entitled "An Act relating to the navigation of vessels," etc.

1.—**IT IS ALSO MUTUALLY AGREED** that the value of each package receipted for as above does not exceed the sum of one hundred dollars, unless otherwise stated herein, on which basis the rate of freight is adjusted.

—**ALSO,** that the carrier shall not be liable for articles specified in Section 4281 of the revised Statutes of the United States, and written notice of the true character and value thereof is given at the time of lading and entered in the bill of lading.

3.—**ALSO,** that shipper shall be liable for any loss or damage to steamer or cargo, caused by inflammable, explosive or dangerous goods, shipped without full disclosure of their nature, whether such shipper be principal or agent, and such goods may be thrown overboard or destroyed at any time without compensation.

4.—**ALSO,** that the carrier shall have a lien on the goods for all freight, primages and charges, and also for all fines or damages which the steamer or cargo may incur or suffer by reason of the illegal, incorrect or insufficient marking, numbering or addressing of packages, or description of their contents.

5.—**ALSO,** that in case the steamer shall be prevented from reaching her destination by Quarantine, the carrier may discharge the goods into any depot or lazaretto, and such discharge shall be deemed a final delivery under this contract, and all the expenses thereby incurred on the goods shall be a lien thereon.

6.—**ALSO,** that the steamer may commence discharging immediately on arrival and discharge continuously, any custom house regulations to the contrary notwithstanding; the Collector of the Port being hereby authorized to grant a general order for discharge immediately on arrival, and if the goods be not taken from the steamer by the consignees directly they come to hand in discharging the steamer, the master or steamer's agent to be at liberty to enter and land the goods, or put them into craft or stores at the owner's risk and expense, when the goods shall be deemed delivered and steamer's responsibility ended, but the steamer and carrier to have a lien on such goods until the payment of all costs and charges so incurred.

7.—**ALSO,** that if on a sale of the goods at destination for freight and charges, the proceeds fall to cover said freight and charges, the carrier shall be entitled to recover the difference from the shipper.

8.—**ALSO,** that full freight is payable on damaged or unsound goods; but no freight is due on any increase in bulk or weight caused by the absorption of water during the voyage.

9.—**ALSO,** that in the event of claims for short delivery when the steamer reaches her destination, the price shall be the market price at the port of destination on the day of the steamer's entry at the Custom House, less all charges saved.

10.—**ALSO,** that merchandise on wharf awaiting shipment or delivery be at shipper's risk of loss or damage not happening through the fault or negligence of the owner, master, agent or manager of the steamer, any custom of the port to the contrary notwithstanding.

11.—**ALSO,** that this bill of lading, duly endorsed, be given up to the steamer's consignee in exchange for delivery order

12.—**ALSO,** that freight prepaid will not be returned, goods lost or not lost.

13.—**ALSO,** that the carrier shall not be liable for loss or injury in addition to packages intended for different consignees but made up into one package, unless the contents and value of each separate package be given before shipment, and freight paid accordingly.

14.—**ALSO,** that the Master Porterage of the delivery of the Cargo be done by the Consignee of the Steamer, and the expenses thereof be paid by the Receivers of Cargo.

15.—**ALSO,** that the Steamer shall have liberty to carry cattle, horses, sheep and other animals and other cargo on deck.

16.—**ALSO,** that where grain is to be stowed together with other grain without separation, either from the same or other shipper, each bill of lading so bear its proportion of loss and/or damage, if any.

17.—**ALSO,** that U. S. Currency rates payable abroad are convertible into sterling at $4.80 Exchange.

AND FINALLY, in accepting this Bill of Lading, the Shipper, Owner and Consignee of the goods and the Holder of the Bill of Lading, agree to be bound by all of its stipulations, exceptions and conditions, whether written or printed, as fully as if they were all signed by such Shipper, Owner, Consignee or Holder.

IN WITNESS WHEREOF, the Master or Agent of the said Steamer hath affirmed to ..... Bills of Lading, all of this tenor and date, one of which being accomplished, the others to stand void

Dated in NEW YORK this.....day of 19

For the WHITE STAR LINE.

a rule, paid in advance, tho some companies do not require it on goods not subject to rapid deterioration.

The insurance company may now be notified of the shipment and a certificate will be issued. This certificate may be issued under an "open policy" of the foreign importer, or of the exporter, or each shipment may be insured under a separate policy. The technique of marine insurance has been discussed in another Text.

24. *The advice of shipment.*—A non-negotiable copy of the bill of lading and the original of the invoice are sent to the foreign consignee with a letter called the "shipping advice" or "advice of shipment," giving the details of shipment including name of steamer, probable date of arrival, manner of insurance, and the name of the claim agent in the port of arrival so that the consignee may know how to proceed should the goods arrive in a damaged condition.

25. *Collecting the draft.*—All that remains to be done now is to attend to the collection of the draft which has been drawn against the consignee. This draft and one or two copies, called "the second," "the third," are sent to the bank for collection. This may be the shipper's local bank at an inland point, or a bank in the foreign country. To the draft are fastened the "documents" by which the ownership of the goods is transferred and those which make entry into the country of destination possible. Usually the documents will include all the negotiable bills of lading, one copy of the commercial invoice, one or more cop-

ies of the consular invoice, one copy of the marine insurance policy, and one copy of the certificate of origin.

It is customary to write a letter accompanying the draft and documents, in which the bank is instructed how collection is to be made, and under what conditions the documents may be placed in the hands of the consignee. Further details relating to the financing of foreign shipments may be found in the Text on "Domestic and Foreign Exchange."

REVIEW

Explain how packing should be done with due regard to the conditions of transportation and to tariff regulations.

Describe step by step the making of an export shipment.

What is contained in an export declaration?

Enumerate the documents which must accompany a shipment to satisfy the foreign customs services.

Describe the making of a shipment from an interior point.

What becomes of the many copies, negotiable and non-negotiable, of the bill of lading?

CHAPTER XII

IMPORTING

1. *Foreign trade has a twofold aspect.*—In many discussions of foreign trade, attention is devoted almost exclusively to exports, and imports are almost entirely ignored. Nevertheless, the importation of goods is quite as important to the national life as exportation. The importer meets many problems peculiar to his work and a special study should be made of them.

Importing is a reversal of many of the processes of exporting. The American importer is a competitor not primarily in the selling, but in the buying market. He is on the look out for products which may find a sale in the United States. This trade has as much of interest and is as capable of future development as export trade. The buying power of the United States is constantly on the increase. Tho the protective tariff acts in one regard as a check on imports, yet in another by exerting an effect on the domestic price-level, it may also encourage them.

Much of our import trade is in the hands of foreigners. Japanese, Chinese, Greeks and Armenians play an important part in introducing the products of their home lands on account of their intimate knowledge of those markets.

2. *Articles of import.*—The list of imports into the United States is quite as formidable as the list of exports. The following table prepared by the Department of Commerce gives a condensed statement of the imports for the years 1913–1917.

These imports were invoiced from the following regions:

	Europe	North America	Asia and Oceania	Africa	South America
1913	$892,866,384	$361,943,659	$314,038,218	$26,425,344	$217,734,629
1914	895,602,868	427,399,354	329,096,884	19,149,476	222,677,075
1915	614,354,645	473,079,796	300,292,655	24,953,081	261,489,563
1916	616,252,749	591,895,543	533,407,455	64,765,745	391,562,018
1917	610,470,670	766,112,537	680,545,842	60,013,316	542,212,820
1918	411,578,494	918,347,346	1,072,399,349	75,911,957	567,418,257

It is interesting to note the fluctuations which have taken place in the per capita amount of imports. Here, as in the other tables, the effect of tariff changes is apparent.

The per capita amount of imports and exports by ten year periods were:

	Dates 1790	1800	1810	1820	1830	1840	1850	1860	1870
Imports	$6.51	17.19	11.80	7.71	4.87	5.76	7.48	11.25	11.06
Exports	8.86	13.37	9.22	7.22	5.57	7.25	6.23	10.61	9.77
	Dates 1880	1890	1900	1910	1914				
Imports	$12.51	12.16	10.93	16.54	19.04				
Exports	16.43	13.43	17.76	18.28	23.27				

The figures prior to 1820 are not reliable since they cover goods imported for reexportation.

The general character of our import trade has changed fundamentally. The importation of crude

Products	1913 dollars	per cent	1914 dollars	per cent	1915 dollars	per cent	1916 dollars	per cent	1917 dollars	per cent
Crude materials for use in manfacturing	635,210,201	35.04	632,865,860	33.42	575,357,144	34.38	948,825,500	43.17	1,109,704,565	41.73
Foodstuffs in crude conditions, and food animals	211,746,500	11.68	247,947,621	13.09	223,929,562	13.38	251,886,746	11.46	335,573,042	12.62
Foodstuffs partly or wholly manufactured	194,243,220	10.72	227,644,329	12.02	285,725,091	17.07	310,938,181	14.14	343,435,475	12.91
Manufactures for further use in manufacturing	349,401,928	19.27	319,275,488	16.86	237,176,522	14.17	356,857,137	16.24	477,730,509	17.96
Manufactures ready for consumption	408,178,704	22.51	449,318,214	23.72	335,876,628	20.04	311,870,962	14.19	377,256,553	14.19
Miscellaneous	14,227,681	.78	16,874,145	.89	16,104,791	0.96	17,504,984	.80	15,655,041	.59
Total imports	1,813,008,234	100.	1,893,925,657	100.	1,674,169,740	100.	2,197,883,510	100.	2,659,355,185	100.
Total exports	2,428,506,358		2,329,684,025		2,716,178,465		4,272,177,579		6,227,164,050	

materials has increased rapidly while the importation of finished articles has declined. The export figures show the opposite tendency. The following table shows the percentage of total imports and exports of the principal groups of products over the period 1830–1914.

Fiscal year	Crude materials for manufacturing		Foodstuffs crude		Foodstuffs manufactured		Manufactures for manufacturing	
	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports
1830	$ 6.72	62.04	11.77	4.65	15.39	16.32	8.22	7.04
1840	11.71	67.61	15.54	4.09	15.46	14.27	11.56	4.34
1850	6.75	62.26	10.38	5.59	12.37	14.84	15.08	4.49
1860	11.22	68.31	12.94	3.85	16.92	12.21	9.87	3.99
1870	12.76	56.64	12.41	11.12	22.03	13.53	12.75	3.66
1880	19.74	28.98	15.01	32.30	17.69	23.47	16.59	3.52
1890	21.62	36.03	16.28	15.62	15.65	26.59	14.81	5.50
1900	32.50	23.73	11.52	16.48	11.66	23.32	15.79	11.18
1910	36.37	33.10	9.30	6.42	12.02	15.16	18.31	15.66
1914	33.42	34.03	13.09	5.90	17.07	12.59	16.86	16.06

(Continued)

Fiscal year	Manufactures ready for use		Miscellaneous	
	Imports	Exports	Imports	Exports
1830	$56.97	9.34	0.93	0.30
1840	45.09	9.47	.64	.22
1850	54.93	12.72	.49	.10
1860	48.68	11.33	.37	.31
1870	39.82	14.96	.23	.09
1880	29.43	11.26	1.54	.47
1890	29.23	15.68	1.17	.58
1900	23.90	24.20	.64	1.09
1910	23.62	29.19	.74	.47
1914	23.72	31.11	.89	.31

This table reflects clearly the gradual change of the United States from an agricultural nation, exporting food products and importing manufactured products, to an industrial nation which finds it more and more necessary to import foodstuffs, and is also increasingly dependent upon the outside world for the raw materials used in its manufacturing plants. The increase in the relative amount of exports of manufactures ready for use from 9.34 per cent in 1830 to 31.11 per cent in 1914 is especially significant of the change in economic organization in the country.

Altho industrially, the United States has become fairly independent of the outside world, it still pays to import manufactured articles in competition with those produced in this country, and it always will pay to do so to a limited extent, but the future of import trade will lie more especially in the introduction of articles of luxury or of a highly technical nature than in the common necessaries of life. Articles which derive their value largely from expert workmanship, secret processes and artistic ability—silks, linens, woolens, cutlery, jewelry, pictures, rugs, laces and embroidery—will continue in demand in increasing quantities.

To these manufactured products must then be added the raw materials of manufacture and the food products which cannot be produced at home, such as ores, raw metal, hides, wood, tropical and semi-tropical fruits, mushrooms, cocoa, tea, coffee and spices.

3. *The organization of import trade.*—The organi-

zation of the import trade in manufactured products is the more elaborate. Many firms are both importers and exporters. The combination is most frequently found in houses dealing with less developed countries, those, for instance, of South and Central America, North Africa and Asia Minor, where the relatively small business of either importing or exporting would not support the expensive organization which must be maintained.

Such transactions cannot usually be carried on by firms with small capital. This is especially so where the products imported from the foreign market are raw or food products because trade in these staples is usually on a cash basis and involves larger amounts than trade in manufactured products.

4. *Buying direct.*—The importing firm may buy direct from the producers thru its branches established abroad, thru local representatives, or thru travelling buyers who make periodical visits to the territories covered.

In case of manufactured goods, much of the buying is direct. Many large department stores send their buyers abroad periodically in search of late specialties and styles. Some stores maintain permanent offices, not only in London, Paris and Berlin, but also in Yokohama and Shanghai. A difficulty in making such offices efficient lies in the fact that they cannot keep in close touch with the American market. For this reason, many houses combine the two methods and establish a contact between the permanent buying

offices and the home office by means of buyers who make periodic visits.

In the staples, fashions play no part: price and quality are the sole determining factors. Local buyers or traveling buyers or both are used. The wool auctions in Australia, the Siberian fur markets, the indigo auctions in Calcutta and the tea market in China are visited by traveling buyers. Travelling buyers may also be employed where the purchases are made in large quantities at auction, or as "spot cash" transactions.

5. *Local collectors.*—In many lines the unit of production is so small that native travelling buyers collect the goods and resell them at a central place to representatives of foreign houses. Such collectors, moreover, perform a useful service in grading and sorting the goods.

In the wool trade in Buenos Aires the *baraqueo* (warehouse owner) receives wool on consignment for sale to exporters, while in Australia the wool is often collected by storekeepers and travelling merchants who in turn sell it to a local broker.

In some cases such collectors will pack the goods after cleaning and grading and mark them with their own trade-marks. This is done by the "baler" of jute in British India, and by the Chinese tea merchants. Similar methods are followed in most of the agricultural products.

In some parts of the world, such as the Balkan States, Southern Russia, Southern Germany and the

Levant where house industry still exists on a large scale, native buyers travel from town to town collecting the goods produced and offer them for sale at some central market. Often the collector furnishes the producer with raw material and makes advances on the price of the goods to be produced.

Often the importer buys in a foreign country goods not produced there, but imported for reexportation. The trade in colonial products is a typical indirect trade; much of America's imports of spices, rubber, and other products of the tropics come by way of England, Holland and Belgium.

Before the war the fur markets of Russia, Germany and England were large auction centers where Asiatic, Canadian and American furs were sold to visiting buyers. American fur dealers in this roundabout way bought back American furs from European collectors. Fur auctions are now held in New York and St. Louis. Zanzibar, Bombay, Shanghai, and Singapore are also important centers of this reexporting trade.

6. *Indirect buying.*—Foreign commission houses are of assistance to those importers who do not maintain branch houses or send representatives abroad. In some cases these houses are employed to supplement the work of branch houses. The commission house checks the shipment before it leaves the foreign port, pays the manufacturer or local middleman and attends to all the details of importation, rendering a bill including all the charges and adding from three to eight per cent commission.

Domestic retailers who do not care to carry the risks of foreign trade find it possible to supply their needs for foreign goods by purchasing from the numerous importing wholesalers or jobbers (these are import merchants corresponding to the export merchants mentioned in an earlier chapter) and thru branch houses or representatives of foreign manufacturing concerns. A large proportion of the more specialized articles such as laces, silks, velvets, and a good share of patented or trade-mark food products such as cocoa, cheese, and canned fish are bought in this country by domestic wholesalers or retailers from the American representatives of foreign firms.

7. *Methods of placing orders.*—In placing an order with an importing house or with foreign firms it is necessary to use great pains to avoid misunderstandings. Difficulties frequently arise thru a failure to make clear what is included in the price and what discounts will be allowed.

No general rules can be given; in importing, even more than in exporting, the rule of the foreign market must be followed. Discounts vary considerably, according to the customs of the market and to the kind of products. The largest discounts are found in the silk and velvet trade in Switzerland and France, amounting sometimes to 25 per cent. Staples are not usually sold with trade discounts.

Much of the European business is carried on open account, but staples are usually sold against documentary drafts. In South America and the Far

East commercial letters of credit are used to a large extent.

In an earlier chapter of this Text attention was called to the necessity of being specific in the use of such abbreviations as f. o. b., c. i. f. or c. i.f. & e. This same statement applies to the import trade. When prices are quoted f. o. b. it may be taken for granted that such quotations include the least that the term allows. F. o. b. means, therefore, at the factory. If quotations are desired on board the ocean vessel the importer should insist on a clear understanding that the goods are to be delivered, for example, "f. o. b. ocean vessel Rotterdam," or "f. a. s. Red Star Line Antwerp," "f. a. s." meaning "free alongside, i. e., within reach of the ship's tackles.

The foreign seller, to whom is entrusted the task of filling out the consular documents, should be instructed in the method to be followed, and pains should be taken where unusual articles are imported to assure that they shall receive the most favorable treatment at the custom house.

Importers must reckon with the United States tariff. Their business is affected, not only by every tariff change, but also by rulings of the courts and the Treasury Department concerning the way in which existing laws should be interpreted. Importers frequently sell before they buy. In such a case, a change in tariff regulations may upset their calculations completely. For this reason they often take orders "subject to changes in the tariff, in classifi-

cations, or in interpretations of existing regulations."

8. *Documents required.*—When importing goods into the United States, the processes followed in clearing at foreign ports and the documents required to secure clearance in American ports, are substantially the same as those required for exportation from this side.

The following regulations are of general application: the consular invoices must be made out in the currency of the exporting country and must contain a full and detailed description of the goods. Usually three copies are required. These must be presented to a United States consul for his *visé*, and the importer, or the seller, who in that case acts as the agent of the importer, must declare that the facts stated in the invoice are correct and that no other invoice giving a different description or quoting different prices has been furnished to any one.

The American consular invoices are of three kinds: one is used for goods purchased by the importer, another form is used for goods not purchased by the importer, and the third form serves for "returned American goods." For the certification of the first two documents a fee of $2.50 is charged; for the reimportation certificate the fee is $1.00.

The consul makes out a list of all invoices certified at his office, giving the number of the invoices, the date of certification, the name of the shipper, and the amount of the invoice, which list is forwarded in dup-

licate to the Collector of Customs in the United States to enable him to verify invoices presented at his office.

In addition to these invoices, special documents are required for the importation of certain articles. Upon importing food and drug products an additional "Special Invoice of Food and Drug Products" has to be certified by the consul. This document is for the Bureau of Chemistry of the Department of Agriculture and is intended to prevent the importation of adulterated foods or drugs which might prove injurious to public health. No fee is charged for this certification.

Sometimes merchandise must be disinfected before the consul will grant his certification on the consular invoice. A special blank is used in such a case, declaring that the goods called for in the invoice have been "disinfected in accordance with the Treasury Quarantine Regulations of October, 1910," under the consul's personal supervision. This document must be made out in duplicate, and a fee of $2.50 is charged. Moist hides of neat cattle must be immersed in a five per cent solution of carbolic acid or a one one-thousandth solution of bichloride of mercury before they can be imported into this country, and certificates of disinfection must be secured from the consular representatives.

The value appearing on the invoices must be the "true market value" or wholesale price of the goods at the time and place of exportation. When the documents reach the importer he may suggest such

changes in the declared values as will bring them more closely in agreement with the true market value.

The appraisers at the port of entry in any event determine whether the goods were correctly valued, and in the case of goods subject to an ad valorem duty, if the appraised value is greater than the declared value, an additional duty of one per cent of the appraised valuation is charged for each one per cent at which the value was understated. This extra duty is limited to 75 per cent of the value of the goods. An understatement in excess of 75 per cent is considered a fraudulent entry and is punished accordingly. Goods imported on consignment are to be entered at the cost of production. All goods of foreign manufacture must be marked so as to show the country of origin, and all boxes or cases containing such articles must be similarly marked.

A number of articles may be imported under bond. Machinery, models of women's wearing apparel, samples, articles brought in by tourists for their own use, and shipbuilding material may all be imported under bond for a period of six months. Similar documents are required for the importation of goods by rail from Canada.

The Canadian Pacific Railway Company requires a "shipping order," by which the freight agent is ordered to receive the goods described. This order is issued in duplicate. The duplicate is filed with the customs official at the point of entry in the United States. Upon presentation of the original of this

shipping order and after checking the shipment with the amount called for in the order and in the bill of lading, the agent signs the bills of lading. These are issued in triplicate. One, the original and negotiable, is sent to the consignee; the duplicate is filed with the customs officials at the point of entry in the United States; the third copy is retained by the shipper. In addition, a "memorandum" is issued which corresponds in every way to the bill of lading, but bears the heading "Memorandum" and states that it is "an acknowledgment that a bill of lading has been issued, and is intended solely for filing or record."

The exporter must then prepare in duplicate an "export entry," stating in detail the marks and numbers of the articles, describing these articles and indicating their values. Both copies are attached to the bills of lading when these are presented to the railroad company.

Four consular invoices are now prepared, of which one is signed by the United States consul at Vancouver and is handed to the railroad company. For this a consular fee of $2.50 is charged. Two copies are filed with the consul and the fourth copy is kept in the files of the shipper.

One consular invoice may cover more than one car if going to the same destination. The form of the invoice used is identical with that required for importation by vessel.

9. *The process of clearing.*—When the ship arrives the merchandise must be cleared. The first thing to

do is to file clearance or entry papers with the local customs authorities. Most custom houses are divided into a marine division, an entry division, a bonded merchandise division, a law division, a drawback division, and a liquidation division.

The entry division supervises the clearing of merchandise. The papers to be filed are one copy of the bill of lading, a copy of the invoice, the consular invoices and an "entry blank" filled out by the importer, in which he has translated the value of the goods into United States currency on the basis of the rates published by the Secretary of the Treasury every three months.

The importer may make a "cash entry" or "entry for consumption," i. e. he declares his intention to pay the duties immediately, or may make entries for "warehouse," for "warehouse and transportation," for "warehouse and exportation," for "immediate transportation without appraisement," for "transportation and exportation," and for "re-warehouse." If goods are not entered within forty-eight hours after the arrival of the ship they are sent to the customs warehouse and if not claimed after a period of one year they are publicly sold.

Vessels are required by the custom house regulations to unload within a prescribed period. Ships of less than 500 tons are allowed ten days, those of from 500 to 1000 tons are allowed fifteen days, from 1000 to 1500 tons, twenty days, and those measuring more than 1500 tons are allowed twenty-five days.

The examination of the goods is made by the appraiser. If the goods are of a uniform nature the process is simplified by limiting the examination to about ten per cent of the total shipment. This amount is held back by the customs officials for inspection; the remainder may be made "deliverable." In such cases a deposit must be made guaranteeing the payment of duties when the correct amount due has been determined. When the duties have been paid a "delivery permit" is issued and the goods are definitely released.

10. *How the appraisal is standardized.*—Cooperation between officials of the forty-eight customs districts of the United States is highly desirable so that goods imported at various times and in different harbors may receive the same treatment. In the case of staples, samples of the various grades which can serve as standards, are kept at each custom house. The trade is usually asked to cooperate in determining these standards.

In the case of manufactured products it is difficult to obtain standardization. A basis for appraisal has been devised for certain highly specialized products. The lace trade in Switzerland has prepared the "Saint Gall Schedule" for the appraisal of laces, and the porcelain industry the "Limoges Schedule." The custom houses thruout the country are in communication with the Comparative Value Report Bureau which has been established to bring about greater uni-

formity in the administration of the customs regulations.

In order to give the appraiser a sound basis for judging the "true market value" a corps of special agents is maintained by the customs service in commercial centers abroad charged with the collecting of data regarding market conditions and prices.

If the importer disagrees with the judgment of the appraiser he may appeal to the United States Board of General Appraisers. From their decision appeal may be made to the United States Customs Court of Appeals and in rare cases to the United States Supreme Court.

11. *Importation in bond.*—Goods entered on a "Warehouse entry" are allowed to be imported "in bond." The appraisal is made at this time. Weight and value determine the duties. Deterioration or loss of weight does not affect the duty to be paid. Since the amount of duty has been determined, release from bond can be secured speedily.

Special regulations apply to bonded warehouse shipments. Each package must be numbered to correspond with the number appearing on the invoices and the entry blank. The importer receives from the warehouse a warrant or receipt for the goods. This warrant may be used to secure a loan at the bank.

The charges for the use of bonded warehouses differ according to the products stored and to local conditions. Usually the space occupied is the basis of

charge, and the rate is usually by the month. In addition to this monthly charge a charge is also made for labor. A quotation may be made: "20 and 15," meaning that a storage charge of 20 cents per package per month must be paid and that the charge for labor in and out is 15 cents per case.

When the goods are withdrawn for exportation the owner makes out a "declaration" in which he declares that the goods removed from the warehouse are intended for export and are "the same in quality, quantity, value and package (wastage and damage excepted) as at the time of importation." The exporter, moreover, signs a bond double the value of the shipment, whereupon the collector of customs issues a permit of withdrawal.

12. *Re-importation of exported goods.*—Goods of American origin may be re-imported free of duty. In order to receive this favorable treatment the special consular invoice described in a preceding paragraph is to be filed with the collector of the port of entry. In case it is impossible to produce this declaration the goods may, nevertheless, pass into the country free of duty upon the execution of a bond for the production of such a declaration.

In addition a "certificate" must be secured from the collector of the port from which the goods were originally shipped stating that these goods were actually cleared outward thru his office. Where the American origin of the goods is above question the production of this certificate may be waived.

13. *Customs broker.*—The customs broker and freight forwarder who make themselves useful in the exportation of goods by shouldering all the confusing details of the custom house play a similar part in the import business.

The broker appointed by the importer as his agent should receive as promptly as possible the necessary documents so that the clearing of the goods may not be delayed. Frequently the broker notifies the importer of the approximate amount of the duty and receives this amount from the importer before the duty is paid. Later he renders an account including a broker's fee of approximately $5.00. The amount of this fee is usually not affected by the value of the goods. Customs brokers are licensed by the Secretary of the Treasury.

REVIEW

Show by figures how the United States has changed from an agricultural to a manufacturing nation.

What classes of products form the bulk of our imports at the present time?

Give some concrete examples of direct buying by importers.

Enumerate the documents required for imports by ocean carrier to satisfy the U. S. customs regulations.

Describe how a rail shipment from Canada to the United States is handled and what documents are required.

Relate step by step the process of clearing a shipment.

How is uniformity in appraisals secured?

PART II
SHIPPING

CHAPTER I

PRINCIPLES OF OCEAN TRANSPORTATION

1. *American foreign trade is ocean borne.*—Trade with Canada and Mexico, our immediate neighbors, is seldom included when foreign trade problems are discussed; in trade, foreign is virtually synonymous with overseas. This is natural. The problems of foreign trade are to a large degree problems of distance, communication, time-consuming transactions. All these problems are emphasized when oceans are crossed.

In the United States the need for a sound national policy encouraging the development of American shipping is only beginning to be recognized. Until the war, the attention of the American people has been directed inland.

Ocean transportation now looms up as a vital factor in the development of our growing international trade.

2. *Ocean transportation.*—While the railroad partakes of the nature of a monopoly, the ocean highways are open to all. A ship can run from New York to South Africa or to Sweden in search of cargo. And the cost of equipping even a fairly large steamer is small when compared with the outlays required before a railroad train can begin its journey. Competition is therefore keen in ocean transportation and it

follows that the tendency toward combination as a means of escape from the results of ruinous rate wars is strong.

It must not be assumed, however, that competition is wholly unrestricted. The ocean is free, but it is necessary for ships to have access to convenient and economically situated wharves. Control of terminal facilities constitutes, therefore, a means of obtaining monopoly control and the large transportation companies have not been slow to seek some measure of control over them. Lighterage privileges, thru rate agreements, and a multiplicity of other methods are also open to them.

3. *First costs.*—The form which competition takes is largely determined by the cost of its elements. Every factor influencing the cost of performing a service offers an opportunity for changing the relative competitive position of those engaged in an industry. Government aid, for example, may take the form of reducing a cost or excessive payment for supposed service rendered.

The cost of ocean transportation is influenced by several factors. The first cost of the vessel will figure in cost as a constant overhead of interest and depreciation charges. The greater the first cost, the greater the overhead; in such case the ship owner must carry freight at any price rather than face the heavy expense of idleness.

4. *Operating cost.*—The operating cost of a vessel depends on the consumption and cost of fuel, the size

of the crew, the rate of wages, and the rate of insurance. With the exception of the item for fuel, practically all these factors remain fairly constant and continue whether the vessel is in use or idle. For this reason it is important to make the most complete use of the vessel during its lifetime. In order to operate economically, a vessel must be loaded to its full capacity, must complete its voyage in the shortest possible time and spend a minimum time in port.

Each of these elements of cost may become a determining factor in the competition between individual ships and between the merchant marines of different nationalities.

5. *Tonnage, gross and net.*—The capacity of a ship is expressed in tons. A ton is held to be 100 cubic feet. We speak of gross tons or net tons. The figure obtained by dividing the capacity of the ship expressed in cubic feet by 100 is called the gross tonnage of the vessel. Net tonnage is the tonnage capacity of the vessel available for cargo or passengers.

The methods of ascertaining tonnage differ slightly in various countries.

It is asserted that American ships are under a disadvantage as compared with English ships because the American method of measuring results in a higher net figure. The disadvantage, if any, is over-rated, since most ships engaged in foreign trade carry documents indicating their net tonnage according to British as well as American practice.

As a rule, the net tonnage is understated by the of-

ficial method of measurement. Some uniformity in this situation has been obtained by the International Tonnage Commission.

Professor E. R. Johnson in his report on the "Measurement of Vessels for the Panama Canal" makes the following comparison of measurements in tonnage averaged from eight steamships:

	Gross tons	Net tons
British rules	5,215.65	3,329.26
Suez Canal rules	5,463.82	3,710.52
American rules	5,581.09	4,142.23

Tho no fixed ratio between gross and net tonnage can be given, it is usually safe to figure that in the case of most steamers two-thirds of the gross tonnage is net, while in the case of a sailing vessel seven-eighths is about the correct ratio.

6. *Displacement tonnage.*—Displacement tonnage is another method of indicating the size of a vessel. This is the weight of the vessel expressed in long tons of 2,240 pounds avoirdupois. The term "displacement" refers to the fact that the weight of the vessel equals the weight of the water which it displaces when afloat. As a rule this measurement applies to the ship with its crew and supplies on board, but without fuel, passengers, or cargo. This is sometimes called the displacement "light" as contrasted with displacement "loaded."

This method of indicating the size is used for men-of-war and passenger steamers. Displacement is not used as the basis for canal or harbor charge because

of the great difficulty in determining the "light" and the "loaded" figure and the possibility of changing the actual displacement when entering a harbor by "blowing out" ballast. It would violate the principle of giving main consideration to earning capacity in levying canal charges.

Professor Johnson says:

> Tolls upon the weight or displacement of ships would be unfair as between different types of vessels, because fast passenger steamers have maximum weight in machinery, fittings, and fuel as compared with the weight of paying load, while slow cargo steamers have a maximum capacity for freight as compared with the weight of and space occupied by machinery, fittings, and fuel. In the case of the passenger steamer, the paying load is relatively light as compared with the non-paying weight or tare, while the freight steamer has an earning load heavy in relation to tare. Otherwise stated, the fast ship of "fine" lines has a large displacement and small deadweight capacity, while the ship with "full" lines has large carrying space in relation to light displacement.

7. *Deadweight capacity.*—The difference between the displacement "light" and the displacement "loaded" is the "deadweight capacity" of a vessel. This carrying capacity of a vessel depends upon its size, the weight of its machinery, the material of which it is built, and its design. The squarer the cross section of a ship the greater is the carrying capacity or the less its speed.

The tendency of owners is to load heavily to increase a ship's earning capacity. English vessels carry a mark on the outside of the hull, known as the Plimsoll line, which must not be submerged in load-

ing. The British Board of Trade has the legal power to fix this line but often delegates its authority.

American vessels have no such compulsory line, but usually a scale of figures on the bow of a vessel indicates depth, while the ship's papers indicate the maximum load she should carry. The absence of a Plimsoll line in this country has, however, an unfavorable effect upon insurance rates. The opinion among underwriters is that as a rule American ships carry ten per cent more deadweight than the British law would allow. Insurance rates are fixed accordingly.

8. *Economic significance of size.*—From an engineering standpoint there seems to be no limit to the size of vessels. As may be seen from the table below, they have already reached enormous dimensions. Further development will be limited mainly by the difficulties encountered in finding adequate port facilities, by the increasing size of the insurance premium and by the difficulty in obtaining full cargos or passenger lists.

DEVELOPMENT OF THE OCEAN LINER

Name	Date when launched	Length of vessel	Speed in knots	Gross tonnage
Britannia	1840	215	8.5	1,139
Great Eastern	1859	692	14.5	18,915
City of Paris	1866	398	13.5	3,081
Teutonic	1890	585	20.6	9,984
Oceanic	1899	704	20.7	17,274
Lusitania	1906	790	26.	32,000
Olympic	1911	883	22.5	46,359
Imperator	1913	909	23.	51,000
Vaterland	1914	950	24.	54,300

Large vessels are relatively cheaper to operate. The first cost, too, of a large ship is lower per ton than that of a small ship. When the cost of building a 2,000-ton steamer is about $40 a ton, an 8,000-ton steamer will cost about $25 a ton. The size of the crew does not increase proportionately with the size of the vessel and the waste space decreases. The average net tonnage of steamers passing thru the Suez Canal increased from 1,416 tons in 1877 to 3,773 tons in 1912. The most economical size for a freighter at present is between 5,000 and 8,000 tons.

9. *Cargo tons.*—In measuring the cargo, two different kinds of tons may be used—the weight and the measurement ton. The weight ton again may be a "long," a "short," or a "metric" ton. As a rule the "long" ton of 2,240 pounds is used in ocean transportation, tho in European trade the metric ton is frequently used. This ton of 1,000 kilograms equals 2,204.6 pounds avoirdupois. The "short" ton of 2,000 pounds is rarely used in shipping.

We have two things to reckon with in loading a ship: the weight which the ship can safely carry and the cubic capacity. The most economical cargo is that which completely fills the available space when the ship is down to its Plimsoll line or the American equivalent in depth. This is an ideal relation between weight and bulk which is not often afforded by any one article. A mixed cargo is, therefore, a generally desirable thing. What one kind of freight lacks in

weight may be made up by another kind which has weight but little volume.

The ship owners have established a fixed ratio between the weight and the bulk of freight in the "measurement ton." This must not be confused with the "measurement ton" as applied to the vessel. The "measurement ton" as applied to the cargo equals 40 cubic feet. The ship's measurement ton is, therefore, equal to two and one half cargo tons. This unit of measurement is said to be based upon the fact that 40 cubic feet of wheat weigh one long ton. Freight rates are frequently quoted "at ship's option," meaning that the company reserves the right to charge on the basis of weight or of measurement, choosing whichever yields the most favorable returns. In the parlance of the sea, some goods "weigh more than they measure," while others "measure more than they weigh." The former is called "deadweight" cargo; the latter "measurement" cargo.

10. *Official registration of vessels.*—All vessels engaged in foreign trade are registered by the government whose flag they fly. Registration also signifies that the machinery, the hull, crew's quarters, the life-saving equipment and other important parts of the ship have been officially inspected and approved. It definitely entitles the ship's claim to the benefits of all treaties and its country's protection. Ships engaged in coastwise traffic are similarly inspected and registered, but the operation is called "enrolment."

In the United States registration and enrolment are administered by the Bureau of Navigation of the Department of Commerce. A list of all vessels of American registry is published by the Bureau under the title, "Annual List of Merchant Vessels of the United States."

The first registry act of September 1, 1789, limited American registry to ships built in the United States. Many Americans, however, have invested in foreign-built ships. They found themselves embarrassed at the outbreak of the European War in being forced to fly foreign flags from their property. Accordingly foreign-built ships certified by the Steamboat Inspection Service as safe to carry dry and perishable cargo are now admitted to American registry for foreign trade and trade with the Philippines, Guam and Tutuila.

In Canada the Department of Marine and Fisheries publishes a yearly "List of Shipping" which is a list of vessels on the registry books of the Dominion of Canada.

11. *Registry by private agencies.*—In order to enable marine underwriters to judge the seaworthiness of a vessel seeking insurance, several private agencies furnish an inspection service, the best known being that of Lloyd's Register of British and Foreign Shipping, which is not to be confused with the corporation of Lloyd's, the world center of marine insurance.

Lloyd's Register lists over 10,000 ships. In order to be classified the ship must satisfy strict rules. It

must be constructed under supervision of a "Lloyd surveyor" (there are 360 such surveyors in the world's ports) and must submit to a survey every four years. Registration is not compulsory, but no ship owner can well afford to ignore "the Book," any more than a business man can afford to refuse to report to Dun or Bradstreet.

"The Book" contains all the salient particulars about each vessel listed, such as material of which it is constructed, code letter, name of the master, number of decks, tonnage, builder, port, engine, and rating. The rating is by the familiar "100 A 1," "95 A 1," etc.

Another well known agency is the Bureau Veritas, now located in Paris. "The American Bureau of Shipping" provides a standard American classification of vessels. It publishes an annual "Record of American and Foreign Shipping." Registration offices of lesser importance are the "Ufficio Veritas Austro-Ungarico" of Trieste; the "Germanische Lloyd" of Berlin; "Registro Italiano" in Genoa; the "Nederlandsche Vereeniging" in Amsterdam; the "Norske Veritas" in Christiania; and the "Veritas Hellenique" of Athens.

12. *Sailing vessel versus steam vessel.*—The question is often raised whether the steamship will displace the sailing vessel altogether. In order to answer this we must contrast the relative advantages and disadvantages of the two kinds of vessels.

The steamship costs more to build, is more expensive to operate, both because of the fuel consump-

tion and of the larger crew required, and has a more unfavorable ratio between net and gross tonnage. On the other hand, it is speedier, is independent of the wind and can travel by the most direct routes. A sailing vessel, for example, bound from Northern Europe for New York, must usually follow the air currents down the coast to Africa, cross the ocean with the northern equatorial current and wind drift and then after turning north again somewhere near Florida, follow the ocean and air currents up to New York. That is very roundabout. The steamship goes by the straightest practicable route.

The steamship has speed also in unloading and loading since it always carries motive power with it. The steamer can make more trips, and therefore work at a smaller margin. Taking its greater frequency of trips into consideration, a steamer is estimated to have about four times the freight-carrying capacity of a sailing vessel of the same tonnage.

More than 75 per cent of the world's tonnage is steam, and nine-tenths of all the freight tonnage transported is handled by steamers.

On June 30, 1918, the American merchant marine consisted of the following ships:

			Engaged in foreign trade	
	Number	Gross tons	Number	Gross tons
Steamships	6,767	7,137,513	918	2,862,002
Sailing vessels	4,587	1,209,535	600	418,130

The Canadian registry on December, 1916, showed:

	Number	Net tons
Steamships	4,202	491,181
Sailing vessels	4,458	451,417

The vessels on the register of the United Kingdom on December 31, 1918, were as follows.[1]

	Number	Gross tons
Steamships (over 100 tons)	9,125	20,379,938
Sailing vessels	4,911	743,065

Mr. Edgar Crammond makes the following comparison in the relation between sailing vessels and steam vessels under British registry before the war:

	1913		1894	
	Number	Tonnage	Number	Tonnage
Sailing vessels	3,198	506,801	10,011	2,822,225
Steam vessels	9,791	11,452,690	6,526	5,894,060

In Great Britain the wooden ship has made way rapidly for the iron and the steel ship. No doubt the absence of suitable wood for shipbuilding and the cheapness of metal in the British Isles played an important part.

13. *Future of sailing vessel.*—Sailing vessels are still being built for special trade, some of them fine steel ships of 4,000 and even 6,000 tons. The average size of the sailing vessel has, on the whole, decreased as far as English ship registration is concerned. The large modern sailing vessels have been mainly built on the continent of Europe and in the United States. The American merchant marine has a larger proportion of sailing vessels than the marines of most other nations. The number of sailing vessels is still on the

[1] A very large number of vessels belonging to Great Britain were lost during the war. The work of replacing lost vessels is proceeding rapidly.

increase tho falling behind the growth of steamships.

The development of the internal combustion engine may help to turn the tide for the sailing vessel. Many of them are now being provided with auxiliary power. The internal combustion engine is especially adapted to this work since it requires little space, necessitates small fuel bunkers, is economical, can be quickly started and stopped with no loss of fuel and is so simple in operation that no special engineering crew need be carried. The greater speed with which the sailing ship can now be loaded and unloaded with the help of the auxiliary engine also increases the ship's efficiency.

A recent development in the internal combustion engine bids fair, indeed, to revolutionize ocean transportation. Many freighters of more than average size are now being equipped with the Diesel engine. One ship covered 40,000 nautical miles at an average speed of nine knots. Another ship, with twin engines, developed 360 horsepower and a fuel consumption of about one ton oil a day as against a coal consumption of eight tons for a vessel of the same size developing the same speed.

14. *Ship's papers.*—According to the United States Naval War Code of 1900, the papers generally expected to be on board a vessel are:

1. The Register
2. The crew and passenger list
3. The log book
4. A bill of health

5. The manifest
6. A charter party, if the vessel is chartered
7. Invoices and bills of lading

The register is a document issued by the government under whose flag the ship sails, describing the vessel in detail and certifying to its registration. Most ships supplement this register by a certificate stating the British equivalent of its registered tonnage, gross and net. American vessels must also be provided with "certificates of inspection" signed by the inspector of the United States Steamboat Inspection Service. Each officer must be able to produce a certificate of competency.

The list of the crew, usually called "ship's articles," is a large printed document. It contains a description of the ship, a description of the voyage contemplated, a scale of provisions, and the bill of fare. A complete list of the members of the crew then follows, giving age, nationality, address, wages, and the position to be filled by each man. This list is to be signed by master and crew in the presence of a shipping commissioner or customs official. A "crew list" giving substantially the same information is to be deposited with the customs collector of the port.

The "passenger list" is required for the purpose of immigration and emigration statistics. It must be laid before the immigration and custom house officials at the port of destination.

The master of the ship must also submit a list of

stores remaining on board at the end of the voyage.

The "log book" contains a complete record of the events of the voyage, the conditions of the weather, the damages suffered, if any, the daily distance covered, and disciplinary measures taken.

An "engineer's log" is often kept of engine performance. This log is required by British law.

The "bill of health" is also required; without it entrance into the port of destination would be difficult. This is a document stating that "no plague nor any other dangerous or contagious disease in an epidemic form at present exists" in the port of departure.

The "manifest" is a list of all the shipments constituting the cargo; the quality, value, destination and origin are given. The captain compiles it from the "captain's copy" of the various bills of lading. A copy of the manifest must be filed with the customs officials of the port of departure and another must be presented to the collector of customs at the port of destination. Where a mixed cargo is carried, consisting of many shipments, the manifest is a formidable document.

A "charter party" is a contract between the owner of the ship and a shipper for the rental of the vessel.

In some cases, especially in voyages in Latin countries, it is necessary to secure a *visé* of the consul of the country of destination on the ship's papers. It may also be necessary to have a consular "bill of health" issued.

When all the formalities required by the port of departure are satisfied, the ship receives its "clearance papers."

Upon arrival at the port of destination the ship's papers are inspected by the custom and health officials and if found to satisfy the regulations a "clearance inwards" is issued, allowing the ship to dock and discharge cargo.

In time of war a "ship's passport" must be carried. It is issued by the Secretary of State and serves the same purpose as a passport issued to an individual. It establishes beyond doubt the nationality of the vessel. Upon arrival in a foreign port the passport must be deposited with a consul of the United States, who will issue it again upon departure.

In rare cases another document is found among the ship's papers, "the bottomry bond." The bottomry bond is a contract in the nature of a mortgage of a ship on which the owner, or the master, borrows money to enable him to make repairs, to fit out the ship or to purchase a cargo. The ship is the security pledged for repayment. Nowadays the practice of giving a bottomry bond is almost wholly confined to the master and is not as generally followed as formerly. The practice seems to be confined to the exceptional cases where a master is forced to enter a port for repairs and is unable to communicate with the owner either because of absence or temporary interruption of telegraphic connections. The money is repaid with a high premium when the

ship completes its voyage. If the ship is lost no payment is made. The master may, if circumstances arise which make such action desirable, also pledge the cargo. But he can only legitimately do so if the cargo is likely to profit by his action. If the goods are perishable and delay would result in case he did not pledge the goods, he would be justified in acting as an "agent for the cargo." If more than one bottomry bond has been granted the last dated has priority as to payment. This is on the principle that the last loan was spent in order to save the security of the preceding loans.

REVIEW

Why is ocean transportation subject to more highly competitive conditions than railroad transportation?

What is meant by "measurement cargo," and what by "dead-weight cargo"?

On the basis of what principle is net tonnage used in determining harbor and canal tolls?

What are the limiting factors upon the size of passenger steamers? Of freight steamers?

Will the sailing vessel disappear completely?

What are some of the papers a ship is supposed to carry?

What is Lloyd's Register and what is its American equivalent?

Under what circumstances can a ship's captain borrow money?

CHAPTER II

THE FREIGHT SERVICE

1. *Ocean freight services.*—Ocean carriers may be classified as liners, tramps, and private carriers. The liner makes regular voyages over definite routes, usually on schedule time. The tramp is an irregular traveller, going wherever it pays to go.

The private carrier is owned and operated by an industrial or mercantile company for its own work, for example the Standard Oil tankers.

Other useful classifications are mail and passenger steamers (express liners); cargo and passenger steamers (combination liners); fast cargo steamers (cargo liners); and ordinary cargo steamers (tramps); and private carriers.

2. *The line service.*—Liners were primarily mail and passenger steamers, but there is an increasing number of strictly cargo liners. They do not usually carry bulk shipments, except in the case of wheat, which is more and more becoming a line-cargo. They specialize on the carrying of manufactured products. These, being usually sold under contract guaranteeing delivery at a definite time, will be sent by preference on carriers which run on schedule. Furthermore, none but manufacturers of high-priced articles can afford to use the expensive liner service.

Virtually they have to do so. The more expensive the goods, the more important rôle does the element of time play. The saving on interest on goods in transit by taking the swiftest route is greater than the increased transportation charge.

3. *Seasonal effects on line service.*—It is expensive to operate a line service. In order to maintain a satisfactory standard thruout the year the equipment must be capable of handling the maximum business which may be demanded of it. Some steamship companies charter, that is, hire, extra steamers to carry them over the busy season, but this is not always possible, especially where the service is a specialized service such as the passenger service, or the refrigerated meat service.

Some steamship lines maintain an equipment capable of handling the maximum demand on their regular line service and then find other employment for their surplus tonnage during the slack season. In case a passenger ship cannot be used to advantage in regular service a special excursion to North Cape, Norway, may be arranged, or a trip around the world. Surplus freight tonnage can easily be diverted to the southern hemisphere, whose busy shipping season comes when that of the northern hemisphere slackens.

Other steamship companies maintain several lines and preferably those which run both on the northern and southern hemisphere and in this way equalize the effects of the seasons.

4. *The cargo problem.*—Another reason why a regular line service is sometimes expensive lies in securing line freight in both directions. The transatlantic service suffers least from this condition, but the lines which connect England with South Africa, for example, can pick up at Cape Town only exports that, tho valuable, are of small bulk. The development of agriculture and the cattle industry in the South African colonies will in time remove this difficulty.

In order to obtain full cargo a triangular route may be laid out as from Europe to North America, from North America to South America, and from South America to Europe. An interesting example of such a triangular service is found in a quotation from a federal court decision acquitting the United States Steel Corporation in a suit brought under the Sherman Anti-Trust Law. The court said:

These vessels call en route at many ports on the west coast of South America and Mexico, at some points which have no regular steamship line. In addition to carrying the products of the Steel Corporation, they have been carrying considerable quantities of material for other manufacturers in this country who had been unable to develop a business because of the lack of facilities.

In order to obtain return freight for their steamers the Products Company have to load them at Vancouver with lumber or coal for the Gulf of California; there they reload with copper for Dunkirk, France, and in France they take on chalk for New York.

The whole triangular trip occupies from seven to eight months and shows the hitherto unused methods and the con-

tinuous sustained effort that must be made to get and hold foreign trade.

The question of a full cargo is of the utmost importance for the line steamer since the possibility of carrying cargo to some other part of the globe, even in case such cargo is available, is excluded. To keep their boats supplied with traffic, the large steamship companies try to develop systems of "feeders." They have, for instance, a direct interest in coastwise traffic. In the United States coastwise traffic is restricted by law to ships of American registry. The Canadian law permits British ships to engage in coastwise traffic and grants the privilege, also, to ships of foreign states which have obtained this right thru British treaties. Foreign states granting coastwise traffic privileges to Canadian ships may also be granted this right in Canadian waters.

The line steamer must leave whether a cargo has been secured or not. In order to secure a steady flow of cargo or of passenger traffic, the company must advertise and maintain ticket and freight offices at both ends of the line, and frequently at places inland. It uses all effective means to promote business. The system of "deferred rebates," is one of those ways. The transportation company agrees to refund a certain percentage, say 10 per cent, of the freight charge at the end of a certain period, usually six months, if shipper will agree on his part not to patronize any other ocean carrier during that period.

5. *Cost of speed.* Speed is another factor of expense. The demand for it is greatest in the case of passenger and mail service. It is expensive. It requires large high-powered engines which depreciate more quickly than low-speed machinery. They take up more space which otherwise might be used for cargo. The fuel consumption is excessive, which means high operating costs and also another reduction in available cargo space. The coal consumption of a steamer travelling at a speed of twenty-five knots is almost twenty times the amount consumed by a freighter travelling at a speed of from eight to ten knots an hour.

To some extent the greater number of voyages and the higher freight rates which can be charged as a result of this high speed compensate for the greater outlay. The relation between speed and economy is constantly changing as improvements are being brought about in the construction of engines. The *Great Eastern* was a commercial failure with a speed of 14.5 knots. Now ships of almost twice that speed are economically possible. As a matter of fact, however, the most economical speed for a freighter today lies in the neighborhood of 12 knots an hour.

6. *The mail and express service.*—The development of lines with regular scheduled sailings and served by fast steamers has been greatly influenced by the demand for rapid mail service. Government subsidies are often granted to secure it. The United

States pays for the carrying of ocean mail in two ways: first, by a contract based upon the speed of the vessel and the length of the voyage; and second, by a payment based upon the postage received by the United States for the mail dispatched.

Some of the largest contracts prior to the war were with the American line, The Oceanic Steamship Company. An American vessel which carries United States mail to foreign countries receives the full amount of the postage, while a foreign vessel receives only a fraction.

A foreign express service is done by the Wells, Fargo and Company, the American Express Company, and United States Express Company, merged during the war under the name of the American Railway Express Company. The services of these companies are similar to those of the freight forwarder. Only small, relatively valuable parcels requiring rapid and safe transportation are shipped by express. Advertising matter is frequently sent this way, especially to countries which levy a duty on such printed matter.

The express company issues a bill of lading, or a receipt, which gives a description of the goods, their value, the name of the shipper and that of the consignee. Where a bill of lading is issued, as in the case of large parcels, three copies are usually made. One copy serves as the sender's receipt, the second copy is sent to the express company's agent abroad and the third copy is filed for record.

The express companies stand to the ocean carriers in the relation of a private shipper, having no blanket contracts with them.

7. *Private carriers.*—Some businesses are so large that they can profitably operate steamship lines of their own, either because their needs are special, or for refrigerator ships or oil tankers, or because of the absence of regular line service.

One of the most successful systems of private carriers is that maintained by the United Fruit Company. This company has a number of steamers commonly known as the "White Fleet." They are especially equipped for the carrying of fruit, mainly bananas, but have accommodations for a limited number of passengers. To many parts of Central America they constitute the only, and to other parts the most reliable, passenger service. About one-half the tonnage of the Great White Fleet was, prior to the war, under British and Norwegian registry.

The United States Steel Corporation also maintains a fleet of steamers under the management of the Steel Products Company which looks after the Corporation's foreign business. The steamers carry general cargo in addition to that supplied by the company. A regular line is operated along the east coast of South America and on the Pacific Coast as far north as Vancouver. The same concern maintains a fleet of ore-steamers on the Great Lakes.

8. *Tank steamers.*—Large fleets of petroleum tank steamers are owned by the Standard Oil Company and

by the Koniklyke Nederlandsche Petroleum Maatschappy, the powerful Dutch rival of the American concern. The English, French, Russian, and smaller American companies, such as the Texas Oil Company, also maintain private fleets of tankers.

For bulk cargos, such as coal and oil, the barge is more and more being used. The barges are towed by large sea-going tugs. An economy is effected by putting the most expensive part of the steamer, the engine, in a separate unit, the tug, which can be constantly employed, while the cargo or barge section is being loaded and unloaded.

9. *Merchant's lines.*—A number of large trading concerns maintain fleets of steamers with regular sailings to ports as a rule not otherwise served by efficient line steamers. The Elder Dempster line of Liverpool and the line to South American ports maintained by W. R. Grace and Company are examples of these private companies.

The private character of these lines seems to be only temporary. They all pass sooner or later into the class of common carriers. Some of them, as in the case of the Elder Dempster, have in fact ceased to exist as independent companies and have been absorbed by the amalgamations which will be discussed in a later chapter.

10. *The tramp steamer.*—Tramps are the real freight carriers. Most of the low-grade or bulk freight is shipped in them. They are boats of moderate size, usually not over 7,000 tons, with a speed

varying between 8 and 12 knots. It has been estimated that of the 44,000,000 tons of shipping space in existence in the world before the war, over two-thirds consisted of tramps.

The economies in the operation of tramp steamers as compared with liners are obvious. A tramp need not leave until a paying cargo has been secured and no time is lost waiting for a sailing date, once the ship is loaded. If such a cargo cannot be obtained in one port the tramp may go where it can be obtained. The problem of a return cargo is simplified, since such vessels are seldom specialized and can carry anything that is offered.

The use of water ballast makes it possible for the vessel to leave without delay, should no suitable cargo be offered.

Sir Douglas Owen, in quoting the case of a steamer which had been practically twice around the world on her first voyage, admirably describes tramp traffic:

> She left Glasgow for Philadelphia, in ballast, and no doubt under charter, and loaded oil in cases. This cargo she took to Japan, going around the Cape to save Canal dues. From Japan she proceeded to Brisbane and Australasia; probably carrying rice under charter. From Tasmania she went to Bombay, whether in ballast or carrying cargo does not appear. From Bombay, possibly with a certain amount of cargo for Buenos Ayres, she proceeded to Burma and loaded cargo for the River Plate. There she discharged part of her cargo and carried the rest to Chilean ports. Thence, doubtless under charter and probably in ballast, she sailed for San Francisco and Portland, Oregon, where she loaded

up, probably with flour and canned stuff, for Japan. From Japan to Java, where no doubt again under charter, she shipped a cargo of sugar for Greenock.

When once a tramp steamer has sailed with cargo outwards she rarely knows what will be her next destination, or when, or on what voyage she will return.

The operating expenses of a tramp steamer are very low on account of its slow speed and large ratio of net to gross tonnage. Tho some few companies possess veritable fleets of tramps, ownership is not as a rule concentrated in large companies. The tramp steamer is not regarded as a common carrier. Each contract for the carrying of freight places the owner of the vessel in the position of a bailee to transport as a private carrier for hire.

11. *The ship broker.*—With thousands of vessels traveling the seas and approaching ports, where after unloading they will be looking for cargo, a distinct business has developed with the object of bringing shipper and carrier together. The ship broker by means of cable and telegraph is constantly informed of the movements of vessels and for a commission or brokerage provides vessels with cargo and also shippers with transportation facilities.

More than 24,000 tramps are moved from one port to another every year thru the agency of ship brokers. The ship brokerage business, like the marine insurance business, is centered in England, particularly in London. Rotterdam is also an important center, as was Hamburg, before the war. The large

proportion of British tonnage to the total tonnage of the world, the concentration of many raw products markets in England and also the fact that the English coal furnishes a welcome return cargo, so that ships never need to leave in non-freight paying ballast, are responsible for the leadership of Great Britain in this respect.

12. *The charter party.*—A "charter party"—*charta partita*—is a legal instrument by which a ship owner leases a ship, or sometimes part of a ship, for a given journey or for a set period of time. The document is made out in duplicate, each party to the transaction receiving a copy.

Charter parties differ considerably according to the trade and the customs of the port. In order to bring a certain uniformity in the provisions, various ship owners' associations have agreed upon the forms to be used. The Ship Owners' Association of the Pacific Coast has adopted a number of standard charters. The steam schooner charter party and the Pacific Coast lumber charter are examples. Such uniform charters can be found, also, abroad. The uniform River Plate charter party is an example of such a standardized charter applying to trade between Liverpool and the River Plate.

A "trip charter" is a contract for a certain voyage and may cover either a single or a return trip. Under a trip charter the payment may be in a lump sum or. more usually, at a certain rate per ton of cargo, or

in the case of wheat, per bushel of wheat. Usually the owner pays all expenses of operation, including the port charges.

In the case of a "time charter" the shipper pays on the basis of a ship's tonnage at a certain rate per month, and in addition he usually pays for the fuel and the port charges. The owner pays the crew and keeps the ship in good repair.

Time charters present the disadvantage to the shipper that each day's delay en route or in the harbor of departure and of destination means an increase in expense. On the other hand, the ship owner must protect himself against excessive delays if he is operating under a trip charter. The number of "lay days" is therefore indicated in the agreement. Should this number of lay days available for loading and unloading be exceeded, the owner has a claim to demurrage at a stated rate per day. Sometimes this demurrage is calculated at a fixed rate per registered ton and at other times, as in the "uniform River Plate charter party," at the rate of one hundred pounds per day for detention of ship if caused by consignee's not taking delivery as fast as steamer can discharge.

The number of lay days allowed differs according to the kind of merchandise carried and the character of the trip. Each kind of work has its custom. In many cases the shipper receives "dispatch money" when the ship is loaded or unloaded in less than a specified period of time.

13. *Seaworthiness.*—The ship is described in most

charter parties as "tight, stanch, strong and in every way fitted and provided for such a voyage." In other charters all this is summed up in the word "seaworthy."

The clause or word has been generally interpreted to mean that the owner can be held responsible for any damage resulting from a defect in the vessel or its management. An insufficient crew, an unqualified captain or engineer, or a faulty engine makes the vessel technically unseaworthy. So also leaky hatches, ill-smelling hold, or a breakdown, thru carelessness, of the refrigerating machinery, resulting in damages to the cargo.

Tho the bill of lading issued by the common carriers does not usually contain a "seaworthiness" clause, the courts have held that this is always implied in the contract.

14. *Destination of vessel.*—In a trip charter it is not always necessary to indicate the port of destination of the cargo. Frequently vessels are chartered for "one safe port on the continent between Havre and Hamburg, both inclusive"; or, "French Atlantic range"; or "U.K. (United Kingdom) range"; or, "U.K.H.H. (United Kingdom, Havre, Hamburg) range." No definite port is indicated. The vessel starts on its journey and "calls for orders" usually at Cork, on the south coast of Ireland. Ships from the Argentine or Cape Town usually "call for orders" at the Cape Verde Islands, or the Azores, where they can also coal.

The purchaser of the cargo decides where the ship shall go. The cargo of cotton, wheat or some other staple product is sold while en route on the exchanges of Europe, Liverpool, Antwerp, Rotterdam or Hamburg.

The current charter rates can be found in the shipping reports of the newspapers or of such trade papers as the *Shipping World, Shipping, Shipping Gazette, Fairplay* or *Lloyd's List.* The following extract from a report of "The Freight Market" taken from the magazine *Shipping* may serve as an illustration:

Schr. *Alicia B. Crosby*	1,016	6000 bbbls. lubricating N. Y. to French Mediterrancan port p. t. April–May.
No. Sp. *Cate*	1,789	Atlantic range to Pernambuco, $21.
No. Stmr. *Imperator*	618	W. India trade, six months, $15,000, May.
Stmr. *Harry Luckenbach*	1,799	Transatlantic trade, one round trip, p. t. del. N. Y., May.
No. Stmr. *Volund*	1,114	Puget Sound to Orient, one round trip, $150,000 lump sum net.

15. *Berth traffic.*—Before the cable and telegraph made it possible for vessels to be directed from a central office to the ports where freight was waiting tonnage, the only way in which a master could fill his ship, was by "putting her on berth." This is still done to some extent by ship-masters or owners. The "good ship" is advertised to sail "on or about" a certain date for a more or less definite destination, and all those who have freight for that port, or way

ports, may make use of her. Sometimes this method is still used when a fairly profitable charter has been concluded for only part of the ship's capacity.

A certain amount of speculation takes place in this kind of traffic. Not infrequently brokers will charter a vessel in order to put her "on berth" in a port where freight congestion has taken place.

16. *Freight forwarder.*—The freight forwarder, or seaboard broker, combines many comparatively small shipments into one large shipment and then contracts with a steamship company for its dispatch. Sometimes, especially for freight to destinations not reached by regular lines, the forwarder will charter a tramp and load it with a miscellaneous cargo. The shipper of moderately sized lots thus shares in the benefits of low rates and good service.

Frequently forwarders are speculators in freight space. They contract ahead for a certain amount of space when rates are low, trusting to their regular flow of cargo to fill the space thus contracted for. Goods are shipped under the name of the forwarder and consigned to his agent in the port of destination. This agent breaks up the shipment and reships each lot to its inland destination. The agent acts also in the capacity of customs broker and attends to all necessary details. Shippers who have little experience in making foreign shipments are thus relieved of all worries connected with the technical details of making a foreign shipment.

Some forwarders will forward goods "freight collect," or even C.O.D., but this is not generally done. Others discount manufacturer's drafts on foreign customers, thereby acting as bankers. This is done on a much larger scale in Europe than in this country. The forwarder usually does not actually "carry" the exporter himself, but rediscounts the draft with a bank.

The charges of forwarders are as a rule reasonable, considering the value of the services which they render. The freight forwarder has proven his usefulness most strikingly during the great war. The constantly changing rates and the unwillingness of steamship companies to reserve space made personal representation at the ports necessary. Frequently forwarders secured space for their clients by paying a slightly higher lighterage and having their cargo ready for loading alongside the vessel instead of letting it lie for months on the docks waiting for space, as much other freight is doing.

17. *The bill of lading.*—The bill of lading (B/L) is a receipt for the goods received on board a vessel and contains the terms of the contract of carriage. Usually it is signed by the master of the vessel acting as agent for the owner. A bill of lading is sometimes used in connection with a charter party, but as a rule is found only where a common carrier is used.

The document is of great importance because it

conveys title to the goods shipped. Several copies, never less than three, are drawn up. Some of these are "negotiable," others are "non-negotiable."

The negotiable copies, of which as a rule two are signed, are the only instruments by means of which the ownership of the goods can be transferred. They are the copies which must be sent to the foreign customer and which must be attached to the "documentary bills" discounted at the bank.

The banks will demand "a full set," tho one negotiable bill is sufficient to obtain possession of the goods. On each negotiable copy the number of negotiable copies in existence is, therefore, indicated.

The non-negotiable copies of bills of lading do not give title to the goods, but are used for purposes of record. One copy is given to the captain who uses it to make out his "manifest." Another copy may be kept at the office of the exporting firm, while yet another may be forwarded to the foreign customer as a notice that the shipment has actually taken place. Sometimes consuls require copies of bills of lading for their files.

Many bills of lading are made out "to order," to which may be added a clause: "Notify Enrico Valdez," or whatever is the name of the consignee. Venezuela, Colombia and Costa Rica do not allow "to order" shipments.

Each charter issues its own bill of lading, but all bills are much alike in appearance. The major part of the bill is made up of "exceptions," by means of

which any liability is disclaimed in case of disaster or other accidents resulting from causes other than "unseaworthiness."

The "clean" bill of lading bears no additional exceptions other than those printed. When a shipment arrives in bad condition at the steamer's wharf the company will either refuse to handle it at all or else will issue a "foul" bill, which is a bill bearing a marginal note stating that the goods were received in damaged condition. Banks naturally do not look with favor upon such bills as collateral.

"Minimum" bills of lading are the lowest sum for which a steamship company will issue a bill of lading. Usually this amount is $5.00. Small parcels may sometimes be shipped with "parcel receipts" issued against them. Samples are frequently handled that way. Many steamship lines do not handle parcels. The latter must then be sent by parcel post, express company, or freight forwarder.

Most railroad companies will issue "thru bills of lading" from points on their lines to the foreign port or even inland points. As far as shipments beyond the foreign port are concerned these can usually be more advantageously attended to by the foreign customers or the exporters' agents.

18. *Trans-shipment.*—Direct routing of freight is not always the most economical, or even impossible. Even where direct connections exist it may be that sailings are so infrequent and roundabout that it is speedier and frequently less expensive to ship

the goods to some European port for trans-shipment.

The Australian and South American services from England and the Continent compete with the direct lines from the United States. Many of the Baltic ports and the ports of the Mediterranean are more easily reached by trans-shipment than by direct connections.

The rates for these services are usually competitive. The real competition is felt in the service rendered. As a rule, trans-shipments should be avoided. They may result in delay in the port of reshipment and they increase the risk of breakage and damage in handling.

Where trans-shipment takes place in a foreign port the risk is borne by the shipper except in the case of gross negligence. This is covered by a clause in the ocean bill of lading.

19. *Size of oversea trade.*—The tonnage which is actually cleared year by year in the American ports reaches an enormous figure. The following table gives the tonnage of vessels cleared and entered in foreign trade in the United States:

	1914	1915	1916	1917	1918
Entered in					
Foreign trade	53,388,577	46,710,466	51,549,897	50,472,176	45,456,037
Cleared in					
Foreign trade	53,183,409	46,885,088	52,423,008	52,077,070	46,013,982

According to the annual report of the Department of Trade and Commerce of the Dominion of Canada, the tonnage of vessels cleared at and entered from Canadian ports was:

	1914	1915	1916
Entered in Foreign trade.....	14,982,393	13,132,944	12,616,927
Cleared in Foreign trade	14,586,093	12,269,642	12,210,723

REVIEW

Differentiate between line and tramp steamers.

Why is the cost of operating line steamers higher than that of operating tramps?

Describe the function of a ship broker.

What different types of charter parties have been described?

What is meant by berth traffic?

What services are rendered by the freight forwarder?

Who bears the losses of accidents in trans-shipment?

CHAPTER III

PORTS AND TERMINALS

1. *Significance of ports.*—A port is a place where ocean and inland transportation meet. It presupposes safe anchorage or harbor for the ocean carrier and facilities for the loading and unloading of freight. A port's economic importance depends upon a number of factors among which are its geographical location, physical characteristics, relation to ocean routes and nature of its "hinterland" or back country, that from which and for which it receives its freight.

2. *Relative importance of world ports.*—The following table will give an idea of the relative importance of the more important foreign and domestic ports. As these figures indicate, the port of New York is by far the most important.

FOREIGN COMMERCE OF THE PRINCIPAL PORTS OF THE WORLD

(From a compilation by the Bureau of Foreign and Domestic Commerce)

		Total commerce
New York	1916	$3,517,987,000
London	1915	2,122,712,000
Liverpool	1915	1,773,847,000
Hamburg	1913	1,901,600,000
Antwerp	1912	1,211,345,000
Marseilles	1913	755,372,000

		Total commerce
Trieste	1913	337,428,000
Riga	1914	100,329,000
New Orleans	1916	301,342,000
Boston	1916	341,985,000
Philadelphia	1916	293,461,000
Baltimore	1916	208,581,000
San Francisco	1916	209,138,000
Montreal	1916	302,577,000
Buenos Ayres	1915	398,570,000
Rio de Janeiro	1915	105,406,000
Valparaiso	1915	38,235,000
Shanghai	1915	244,587,000
Yokohama	1915	374,624,000
Singapore	1914	273,211,000
Calcutta	1915	411,386,000
Bombay	1915	301,404,000
Sydney	1915	257,097,000
Melbourne	1915	161,057,000

3. *Physical characteristics.*—Ports may be of three types: river ports, roadsteads, or natural bays. River ports were the first to become prominent. They have many advantages. They are easily accessible both from the ocean and from the land; they furnish a safe anchorage; and, since the port is more or less inland, the length of the land haul, always more expensive than water transportation, is shortened.

The main drawback of a river port is the expense of keeping the channel navigable for the ocean ships, which year by year increase in size. The rivers carry down sand, gravel, and clay and deposit this in the river's bed and mouth, thus not only filling the channel but constantly changing its location. This difficulty is all the greater when the port is located at a long distance from the ocean, as many of the large

ports are, New Orleans being 106 miles from the Gulf, Baltimore 151 miles from Hampton Roads, Rotterdam 18 miles from the North Sea, Bremen 54 miles, Hamburg 67 miles and London 67 miles.

Many of the large river ports have, therefore, established subsidiary ports near the mouth of the river. Relatively cheap land could be obtained there for harbor works and the stretch of channel necessary to be kept open for the largest vessels could be greatly shortened. Cuxhaven, Bremerhaven and Tilbury are examples.

The creation of roadstead ports is usually very expensive. Breakwaters must be constructed and the basins thus created dredged. None of them is very prominent. The handling of freight is likely to be difficult and costly in such ports. Boulogne in France, Dover in England and San Pedro in California are examples. Boulogne's chief significance is as a passenger port for travellers to and from England. The boats of the Holland-America line call there on eastward voyages.

The natural bay port is of more commercial significance. New York, San Francisco, Boston, and the ports of the Puget Sound are bay ports. The fact that large rivers empty into some of the bays gives them the advantages of both bay and river ports.

4. *Port improvements.*—The increasing size of ships places a heavy burden on the ports. Channels must be deepened and not infrequently widened to accommodate the modern liners, some of which are

1000 feet in length. Wharves must be constructed to accommodate these ships. With the increase in size of the ships comes an increasing demand for greater speed and efficiency in loading and unloading. Every unnecessary hour spent in port is a loss to the owners.

5. *Wharves and docks.*—Where the tides are moderate as in New York and San Francisco harbors, vessels may dock there. Sometimes it is found desirable to construct basins or tidal docks. The Erie Basin and the Atlantic dock at Brooklyn were constructed to afford anchorage outside the regular channel. In the case of the Atlantic dock, 40 acres of low marshland were dredged, substantial quays built and a series of large warehouses constructed in connection with them. Such basins permit concentrated ownership and control, and a greater concentration of railroad facilities than would be possible if the wharves were spread over miles of river front.

Where the difference in tides is great, say from 12 to 40 feet, as in Liverpool, London, Havre, Marseilles, Hamburg and Antwerp, it is necessary to close the entrance to the docks by means of locks. Such docks, usually called wet docks, are expensive. They are supplemented at Liverpool and Antwerp by large floating pontoons or "landing stages." Liverpool's largest one is 2,478 feet long and 80 feet wide and is connected with the shore by nine bridges besides a large floating bridge for freight. Seattle has a wet dock with two locks a mile inland.

6. *Ownership and control.*—It seems evident on the face of it that some measure of utility in the control of administration if not necessarily in the ownership is essential to efficiency of ports. Yet there are few American ports which recognize it. They have developed along lines of least resistance with slight cooperation between federal and local authorities, no attempt to utilize harbor or river frontage to the best advantage, no advanced coordination of rail and water terminal facilities, oftentimes with the control of water frontage handed over to the railroad companies and with a general lack of loading and unloading machinery.

The reason for this haphazard development lies largely in the Anglo-Saxon respect for competition. We have thought in this country as Sir Douglas Owen thought in England that "a port can hardly be at its best until the railways contend for its trade, and when the railways have not only to compete with one another, but also to face the competition of canals, great should be the prosperity of the port."

The control of ports in the United States is shared by the federal, state and municipal authorities. The federal government, in virtue of its power to regulate foreign and interstate commerce, has control of the navigable channel and fixes the lines beyond which shore structures may not extend. Between the pier line and the shore the state government is supreme, while the shore itself is usually controlled by the municipality.

In most states the control of the state's jurisdiction is vested in a board of harbor commissioners. A harbor master may be delegated authority to regulate the time of loading and unloading, to collect fees and to arbitrate disputes between owners, shipmasters and crews.

In American ports ownership of facilities is largely in private hands. There are, however, noteworthy exceptions.

In the words of Herbert Knox Smith, United States Commissioner of Corporations, in a report on "Transportation by water in the United States":

> Two ports only, New Orleans and San Francisco, are noteworthy for their high degree of public ownership, control, efficiency and equipment. At New Orleans the active waterfront is admirably equipped and controlled by a state board; most of the wharves and sheds are open to general traffic, and a municipal board operates ten miles of belt line railway, giving coordination between the waterway local industries and trunk line railroads. At San Francisco there is an excellent system of wharves under state control, kept open for general traffic. The water terminal situation in these two cities is by far the best in the country.

The principle of public ownership of the waterfront has been considered in countries of Continental Europe as fundamental to the efficient development of port facilities.

In Great Britain the right to construct and control harbors is vested in the crown, but the right is generally delegated to boards created by special act of Parliament.

In London the port is administered by the Port of London Authority which in 1908 took over all private corporations at an expenditure of approximately £22,000,000. The board of 28 members is elected by the users of the port, the national government, the city government and the Board of Trade.

In Liverpool the Mersey Docks and Harbour Board has absolute control over port facilities. Short leases to private interests are given. A similar condition prevails in Montreal; all harbor lands are held "in trust" by a harbor commission and the life of leases is limited to 40 years.

Hamburg harbor is owned in its entirety by the state of Hamburg and administered by the Deputation for Trade, Navigation and Commerce. The harbor improvements represent an outlay in excess of $100,000,000. United States Consul General Robert P. Skinner, in a report to the Department of Commerce and Labor, a few years ago, made the statement: "Few ports in the world, if any, are equipped to handle merchandise more expeditiously and economically than Hamburg, and this in spite of a situation 75 nautical miles from the open sea."

Rotterdam, situated about 18 miles from the sea, acquired in 1882 all the private harbor property of the Rotterdamsche Handels Maatschappy. At present all but Spoorweghaven, a small section of the harbor, is owned by the municipality, which supplies it with ample loading and unloading facilities, bonded

warehouses and all other equipment calculated to make the port efficient.

Compared with these striking examples the situation in American ports is not encouraging.

7. *Port efficiency.*—The lack of coordination of facilities in a port resulting from multiple control and ownership means a loss of efficiency. Mr. H. McL. Harding states that many European ports transfer on the average more than 1500 tons of freight per day for every linear foot of quay, as compared with 150 tons at New York.

The New York Harbor Commission in its report for the year 1914 describes the situation in our largest port in the following words:

> It will be seen that the railroad terminals are situated in the New Jersey section of the harbor and the steamship terminals are situated in the New York section of the harbor, and there is no physical connection between them. Except in a few instances, there is no place in New York harbor where ships are brought alongside of railroad cars on the tracks of their main systems. Practically all interchange of freight between ships and railroads is done by the medium of lighters. There is no harbor in the world where so much lighterage is done as in New York.

The lighterage in the port of New York requires the services of 60,000 men who operate 10,500 craft representing an investment of $250,000,000.

The picture is not complete without another view, quoted from Dr. E. S. Bradford:

In New York harbor, below West Sixtieth street, on the Hudson River, railroads occupy more than thirty piers for freight purposes, besides those for their many ferries. All the space along the river from West Sixtieth street to Seventy-second street is occupied by a single railroad company. Many of the East River piers are occupied by railroads. Tho the city of New York owns a large portion of the river frontage on both rivers, its system of long-term leases has resulted in a considerable degree of control by the lessees. Almost the entire active waterfront of Jersey City is occupied and most of it is owned by the railroads.

Conditions at the port of Boston are described by Mr. Paul T. Cherington in a pamphlet issued by the Boston Chamber of Commerce. There are twelve freight stations in Boston which have 49 different freight houses with 1201 separate doors; freight must be delivered or received at the right door according to destination or origin; and the three railroads concerned are not connected by any belt line. In the words of Mr. Cherington:

If each railroad were able to secure a complete cargo for each ship offering itself, and if all the business done in connection with steamships were to and from competitive points the situation would be quite satisfactory. As it is, the struggle for business by the individual lines is keen and the competition which develops leads to wasteful and unsatisfactory methods of operation for the steamship lines.

For example, suppose a ship operated by a line running in connection with the Boston and Albany Railroad should have only three-fourths of a cargo ready for her at that company's Grand Junction wharves in East Boston. She would not be permitted by present practice to solicit cargo at the terminals of other railroads, no matter how much freight might

be at these docks for the same foreign destination, nor is she permitted to load freight obtained from any of these railroad piers or, in fact, from any other piers unless that freight pays a high switching charge. If cargo for this ship brought in by any other line were to be lightered to the side of the ship and put on board by the ship's own tackle, it would be obliged to pay half wharfage to the Boston and Albany Railroad.

Again, if more freight were at the Grand Junction wharves than the ship could take, and if there were no other sailing by this line until, say, two weeks or later, the freight would lie there awaiting the next steamer of this line rather than be transferred to any other pier for forwarding by any other line. This again, is due to the switching charge which would be added to the freight in case of such transfer. These serve to illustrate some of the evils of railway ownership of terminals and exclusive steamship contracts.

8. *The cost of delay.*—In the American harbors, incoming ships are inspected by the quarantine officials before docking or discharging passengers or cargo. In New York each vessel arriving from a freight port pays an inspection fee of $5 and an additional $5 when the inspection is made after sundown. Should it be necessary to disinfect the vessel a charge varying from $5 to $50 is made. In addition to this, a fee of $2 per hundred is made for the examination of steerage passengers.

If after this inspection the ship is allowed to proceed, it is necessary to "clear" it. The master presents his clearance papers from the port from which he sailed to the Collector of the Port. He also hands over his "register." These documents are held by the

port officials until the ship is ready to "clear out." These formalities take time. To them must be added those entailed in satisfying the customs requirements.

It is here that the free port proves its greater efficiency. As Professor Edwin J. Clapp said:

> Perhaps the chief advantage of the free port lies in the facilities it offers for the rapid, frictionless discharging of ships with dutiable goods, whether destined for reexportation or shipment inland. As Hamburg lies 85 miles from the sea, precaution must be taken to prevent goods being landed on the way up. The Hamburg pilot, who must be taken aboard when the vessel enters the Elbe, is sworn in as a customs inspector. Under his guidance the vessel comes up the river at any hour of day or night and passes to her berth in the free port, unmolested by customs officers. There are no summary or detailed declarations of dutiable goods to be made, no customs officers to be taken aboard, with the explanations and delays attendant on their presence, whereas in England, their official hours are limited, a ship with dutiable wares must suspend the discharge of her cargo during night hours. In the Hamburg free port, she discharges and loads day and night, if she will. When she is ready, her inspector-pilot takes her out to sea; no officer of the customs has even been aboard. It is the least conceivable hindrance of the free movement of a ship.

There is another consideration which makes for economy in a free port. A free port is a reshipment center. Commodities may be brought in large amounts to such free port in large steamers, and be distributed from there by short-haul, inexpensive boats.

Of the imports into the United States from Eng-

land more than one half, or in normal times approximately $150,000,000 worth has not been produced in England at all, but consists of reexportation of rubber from Brazil, cotton from Egypt, tin from Bolivia and the Dutch East Indies, wool from Australia and other products foreign to English soil. A similar situation will be found if the exports of ports like Rotterdam, Bremen and Antwerp are examined.

Such ports also tend to become important consignment centers, consignments being attracted by the certainty of a good market, good shipping connections and low charges. They are a distinct benefit to domestic manufacturers, since an ample supply of raw material is thereby assured.

There is no reason why New York may not become even a larger re-shipment harbor than any of its European rivals, once the facilities for free and efficient movement of freight are established.

In most of the ports of the Orient the freight, even coal, is carried in and out of the vessels by men and women, labor being cheaper than machinery. Usually the facilities for storing are poor. The result is a long stay in port, a heavy expense to the shipper and in the long run a higher price to the consumer for the goods imported. Hongkong, being a free port, offers a notable exception to this in all respects.

9. *Loading and unloading machinery.*—It is a long step from the generally primitive conditions of the East to modern ports equipped with the electric loading and unloading devices. Large traveling cranes

ride alongside the ship, one for each hatch, reach into the hold of the vessel, lift the cargo at the rate of 80 tons an hour for each crane and deposit it upon the railroad flat cars on the quay or on the smaller electric trucks which distribute it into the spacious freight sheds along the waterfront. Ten cranes of this type can easily unload from 6000 to 9000 tons a day. Machinery is in general use in the ports of England, Germany, France and Holland.

If we compare this rate of unloading with that of New Orleans, the best in this country, where 1500 tons are discharged during a day, it becomes at once clear what is meant by port efficiency. A ship unloading in a port equipped with these appliances can cut its stay to one-fourth of the time it would otherwise require. Moreover, and this is of equal importance, the port's capacity to accommodate traffic is multiplied by four.

The economic importance of a quick "turnover" has been strikingly emphasized in the American transport service during the great war. Cutting the stay in port proved a most effective method of increasing available tonnage. When the greatest of American transports first came over it took fifty-two days to unload her at Liverpool, according to a newspaper. The next trip was better, twenty-eight days. On the third trip it was decided to send her to a French port, where the Americans had begun to take things over. At the first arrival, 10,000 men and supplies were unloaded and the ship coaled and sent back in

four days. On the second trip the ship stayed in port three days. The third trip took forty-three hours and the fourth forty hours. This achievement is the result of mechanical perfection and centralized control.

In order to make such modern equipment effective the pier must be spacious, the sheds must have ample capacity so that freight may be moved away as soon as deposited by the crane and distributed according to destination or kind, for the convenience of inspection and reshipment.

Where no movable cranes are available the ship's tackle may be used. The masts of the ship and its booms form the crane while an auxiliary engine supplies the power. Such tackle operates at a low cost and is fairly efficient, tho lacking in flexibility and reach.

On account of the narrow piers and the general use of the box car, American ports have very few cranes. Many piers have what is called a "cargo mast." The load is hoisted by the ship's engine and lowered on the pier by the stationary engine on the pier. It is fairly economical, but cannot compare with the crane which lifts, without rehandling, from shiphold to railroad car.

10. *Specialized and bulk freight.*—America leads in devices for the handling of bulk freight and of special products. The belt conveyors, which load and unload sacks of wheat, coffee, or sugar; the combination, vertical and horizontal, conveyors such as are

used for the unloading of bananas in New Orleans with a capacity of more than 2,600 bunches per hour are marvels of efficiency.

In the European ports where trans-shipment of grain takes place on a large scale, floating grain elevators are common.

One of the leading grain elevators in this country is at present the municipal elevator of New Orleans. This elevator has by far the greatest shipping capacity of any similar elevator on the Atlantic Coast. It has four shipping conveyors with a combined capacity of 100,000 bushels per hour.

11. *Port charges.*—A vessel making use of a port is expected to bear its share of the expenses of the services rendered. The tendency thruout the world is towards a reduction in these charges. The principle seems to be making headway that the port is a public service and that its services should be rendered free, or, at any rate, at cost, so as not to curb the development of trade.

Port charges may be divided into: (a) charges on vessels, (b) charges on cargo, and (c) incidentals. The heaviest item charged on vessels is usually for towage or dockage; the other charges such as the tonnage taxes and pilotage must also be added. The United States Government collects a tonnage tax of two cents per ton for each entry, not to exceed ten cents per ton annually.

Some examples of port charges as given in Urqu-

hart's "Dues and Charges in Foreign Ports" (fifteenth edition), may be interesting.

Charges on a steamer of 600 net registered tons discharging in New York, cargo, coffee, 12 days discharging.

Tonnage tax, agency, health fee, postage and telegrams, petties	$ 474.14
Discharging 81,000 bags at 3½c	2805.74
Tallying	70.00
Towage	63.70
Wharfage, 12 days at $15.05	180.60
	$3594.18

Charges on a steamer of 2,500 net registered tons loading case oil for Plate, 23 days in port.

Inward pilotage	$33.36
Custom house fees	7.00
Disinfecting	50.00
Harbor pilotage	15.00
Towage	107.00
Running lines	15.00
Dunnage	675.10
Dunnage extras	90.67
Stevedore loading 134,210 cases ¾c. and extras	1054.01
Wharfage and cookhouse	322.40
Hoisting cargo	116.90
Watching	54.60
Consul fees (British)	3.90
Argentine	115.25
Custom House clearing	12.60
Outward pilotage	56.98
Telegrams and petties	49.58
Agency fee	51.08
	$2830.43

Professor Emory R. Johnson makes a comparison between the various expenses incurred by a tramp steamer of 1200 tons net register, with a cargo of 800 tons of agricultural implements, at the following ports:

New York	$548.84
Antwerp	443.62 (during summer)
	484.48 (during winter)
Rotterdam	396.76
Hamburg	600.11
Havre	741.52
Liverpool	1175.43

This high figure of Liverpool is due to the high cost of docking and of discharging cargo.

12. *Effect of tonnage on port charges.*—Most of the port charges which are levied on the vessel are levied on the basis of net tonnage. This introduces an interesting situation. As was explained in the preceding chapter, the net tonnage is obtained by deducting from the gross tonnage the space not available for cargo or passengers. The large ocean liners with their disproportionate requirements for engine room, coal bunkers and stores room render therefore a very low net tonnage.

Sir Douglas Owen makes an interesting comparison between the net tonnage of the *Lusitania* and of a tramp of the same size:

	Lusitania	A Tramp of the same size
Gross tons	30,822	30,822
Less	22,307	Estimated deduction for engine room, etc. 10,274
Net	8,515	20,548

It is clear, therefore, that a 30,000 ton vessel which requires very extensive port facilities, long wharves, deep channels, thereby increasing tremendously the expenses of the port, would pay no more than a tramp steamer of approximately 13,000 tons (13,000 gross less one third or 8667 net).

By act of Parliament the maximum deduction to be allowed for non-available space has, therefore, been set at 55 per cent of the space remaining after the quarters for crew and of the navigation space have been deducted. In this way the large ocean liner is made to bear a more equitable share in the port expenses. Such special treatment may well become a factor in limiting the size of the transatlantic liners.

REVIEW

What are the advantages and disadvantages of river ports? Give some examples.

What is a wet dock, and what a tidal dock?

Account for the inefficiency of our American ports.

What are some of the advantages of a free port from the standpoint of ocean transportation?

What are the most important items in port charges?

CHAPTER IV

OCEAN FREIGHT RATES

1. *Why ocean freight rates are cheap.*—Ocean transportation is cheap compared with transportation by land. Before the war a shipment of shoes from Chicago for London paid $1.20 freight from Chicago to New York, a distance of 912 miles, and $1.30 from New York to London, a distance of 3,222 miles, or more than three and one half times as far. It costs less to ship coal from Cardiff to Port Said (3,072 miles) than from the mines to London (170 miles).

The reasons for the relative cheapness of ocean freight lie in the comparatively small first cost of the carrier and its comparatively low cost of operating. Nature furnishes the roadbed, and the first cost and upkeep of seacraft is less than that of locomotives and rolling stock. A vessel of 3,000 net tons, capable of carrying 6,000 tons of cargo and travelling at a speed of 10 nautical miles an hour, could be bought before the war for about $300,000. The general overhead on such a vessel, including the wages of the crew, provisions, repairs and insurance, would hardly exceed $150 a day; the fuel consumption might average 30 tons per day.

2. *The competition among carriers.*—The price

charged for any service must necessarily bear a definite relation to both the value and the cost of the service. No vessel would ever agree to carry freight at less than cost plus a fair profit, if the investment could be shifted to a better paying business when the freight market is weakened. But this is impossible. Accordingly, when the demand for transportation service is small, owners of vessels bid each other down to the lowest possible figure, if necessary taking a small temporary loss to escape a larger one.

When rates are high it is easy to enter the shipping business. No knowledge of shipping or of navigation is necessary. A little capital and a well selected broker are the only necessary elements. The broker will buy a ship for the investor and will keep it supplied with freight, as far as possible. A new and presumably more efficient ship finds it easier to obtain a full cargo than does a less modern vessel. The insurance rate is lower on it. There is therefore a premium on the building of new ships. Shipbuilding often goes on when freight rates are decreasing, thereby emphasizing the depression.

On the other hand, as the experience of the war has shown, the process is so slow that even an extraordinary demand for tonnage will not produce new shipping enough to bring down the rates for perhaps many months.

3. *Local fluctuations.*—Besides the general fluctuations in rates, local fluctuations occur. The following table made up from figures prepared by the National

Foreign Trade Council gives some instances, the quotations being in shillings and pence, as is the custom thruout the shipping world:

FREIGHT FLUCTUATIONS IN 1916 IN SHILLINGS AND PENCE

From	To	Cargo	Scale	Highest	Lowest	Previous highest rate since 1868
Australia	U. K. or Continent	Grain	Per 20 cwt. Wheat basis	120/–	95	110
Australia (sailers)	"	"	"	125/–	75	75
	"	"				
	"					
Portland (Ore.) Puget Sound or San Francisco			"	157/–	152/–	130/–
" (sailers)			"	135/–	125/–	100/–
West Coast So. America	U. K. or U. S.	Nitrate	Per 20 cwt.	145/–	$16	120/–
" (sailers)	U. K. or Continent	"	"	145/–	90/–	81/–
Bombay	United States	Ore, etc.	"	155/–	130/–	110/–
U. S.: Atlantic Ports	U. K. or Cont.	Cotton, etc.	Per ton n. r.	340/–	220/–	262/6
			Per qd.	32/6	7/9	17/6
"	"	Grain	480 lbs. wheat			
Gulf ports	"	Cotton	or maize			
"	U. K. or Cont. or Mediterr.	Grain	Per ton n.r.	260/–	250/–	190/–
			Per qr.	30/–	10/6	24/–
			480 lbs. wheat			
Canada	W. Coast U. S.	Deals	or maize			
			Per standard	390/–	200/–	140/–
Montreal	U. K. or Cont.	Grain	Per qr. 480 lbs. wheat	18/–	7/–	12/3

To make the situation perfectly plain, suppose that the Argentine wheat harvest is waiting to be trans-

ported. This will mean an active demand for cargo space and an increase in the rate. The necessity for tonnage from west to east will at the same time, however, influence the rates from east to west, for if a vessel had to travel in ballast to South America, the westward voyage would be a large expense which would ultimately have to be paid by the freight charges on the wheat. Such steamers will therefore undertake to carry westward freight at a low rate.

Any event which tends to concentrate tonnage in any one part of the world affects the freight rates in every other part. During the European War millions of tons of shipping were diverted to war uses, causing freight rates all over the world to rise to abnormal heights. The following table, taken from figures prepared by the National Foreign Trade Council, indicates by quotations at various times how freight rates rose. (Quotations in shillings and pence.)

	1914				1915		
	Apr.	Aug.	Sept.	Dec.	June	Sept.	Oct.
Savannah to Liverpool (or Bremen) (cotton)	29/3	..	30/–	60/–	120/–	..	155/–
Gulf to U. K..... (timber)	75/–	..	90/–	85/–	215/–	240/–	..
Baltimore to U. K..... (grain)	..	2/–	2/–	5/–			
New Orleans or Galveston to U. K. (grain)	..	3/6	2/6	6/3			
New Orleans or Galveston to French Atlantic (grain)	..	4/1 1/2	3/1 1/2	7/6			

4. *Cost of service has little effect.*—It is, therefore, clear that the cost of the specific service has little

effect in determining the rate which will be charged for it. Nevertheless, the increased efficiency of ocean transportation and the resulting decrease in operating cost must needs in the long run reduce freight rates.

The greatest single factor in cutting the expenses of ocean transportation is found in the improvements in the marine engine and the consequent reduction in coal consumption. Outlays for fuel constitute about 47 per cent of the total operating expenses of the average steamer. According to A. J. Maginnis:

In 1840, 1 lb. coal propelled 0.578 displaced tons at 8 knots of which 0.057 was earning weight.
In 1898, 1 lb. coal propelled 3.5 displaced tons at 10 knots of which 2.1 was earning weight.

Expressed by years and in terms of knots times earning tons, the performance has been as follows:

In	1840	1 lb.	coal performed	0.456	knot-tons
In	1850	1 lb.	coal performed	1.44	knot-tons
In	1860	1 lb.	coal performed	2.7	knot-tons
In	1870	1 lb.	coal performed	9.	knot-tons
In	1880	1 lb.	coal performed	10.5	knot-tons
In	1890	1 lb.	coal performed	19.3	knot-tons
In	1898	1 lb.	coal performed	21.	knot-tons

Such phenomenal increase in performance went hand in hand with a more favorable ratio of net to gross tonnage, a result of the substitution of steel for iron. Freight rates have declined steadily, tho not without fluctuations, as shown by Professor E. R. Johnson's table of the mean steamship rates from New York to Liverpool:

Year	Grain Per. bu.	Flour Per ton	Beef Per tierce	Pork Per bbl.
1884	7.02 cts.	$3.05	89.9 cts	75.4 cts.
1885	6.40	2.76	77.4	59.1
1886	6.62	2.82	77.9	63.1
1887	5.04	2.22	63.6	51.6
1888	5.28	2.32	71.1	52.1
1889	7.88	3.33	105.2	76.4
1890	4.94	2.44	81.4	61.1
1891	6.28	2.73	95.4	63.1
1892	5.22	2.48	69.9	45.8
1893	4.70	2.26	69.6	49.1
1894	3.82	1.89	58.6	42.3
1895	4.32	1.88	53.6	35.3
1896	5.88	2.61	72.1	50.1
1897	6.18	2.74	68.1	48.6
1898	6.92	3.34	86.4	64.1
1899	4.84	2.55	66.8	49.1
1900	6.80	3.07	87.9	65.6
1901	2.48	1.44	36.3	28.3
1902	2.92	1.80	47.3	35.8
1903	2.92	1.82	50.6	46.8

5. *Distance does not determine rate.*—From the various figures given, it will be seen that distance does not directly influence the rate. Whether Singapore is the final destination of the cargo or Naples, some 5000 miles nearer, the freight rates are practically the same. In short, freight rates are strictly competitive and are determined by "what you can get."

The time consumed in travelling these longer distances is indeed a factor in cost, but the cost of operating a moderately sized freight steamer is so low that it does not figure as a very large item. The actual

expense is estimated at about 10 cents per net register ton per day for a steamer of 10 knots speed.

6. *The line rates.*—The rates which the regular line steamers charge for their services are greatly affected by the condition of the charter market. The possibility of chartered ships being put "on berth" to compete temporarily with the established lines is a constant danger. This situation is the more serious since the tramp can cut rates in a port without fear of reprisal. It may not return to that port for months or years, or even at all. On the other hand, the liner depends upon the local freight market. Moreover, there is a constant possibility of new lines being created temporarily or existing lines expanding by a chartering of more steamers.

The tramp is, as a rule, a "full-cargo" carrier. The liner finds its main support in the less-than-ship load lots. Tramp competition attacks mainly the bulky articles on the traffic list, those which the liner does not cover for the best of its business, but those to which it must look for its "measurement cargo" to give it the proper mixture of weight and bulk.

The competition between lines is more serious than that between lines and tramps because lines depend upon the same class of goods for their freight. They are direct competitors. If one cuts a rate the other lines must follow or see their boats leave without full cargoes. In order to remedy this situation the lines have in the past combined to control the rates.

7. *Difference in rates.*—Freight rates are far from

being uniform. Often different rates are paid by different shippers over the same lines. Professor J. R. Smith describes the situation as follows:

A line steamer outward bound from an American port usually derives its freight profits from such commodities as machinery and manufactured articles, provisions, oil cake, flour, and other prepared foodstuffs. Grain is usually taken, but at rates that are rarely profitable and always below the full-cargo rate for grain. Grain is heavy, but easily handled, because it is usually handled in bulk, and it makes very desirable ballast to steady the ship. Accordingly, the policy is to fill the ship as full as possible with good paying freight and finish her off with grain, some hundreds or thousands of tons, as the case may be.

The variety in rates is further increased by the practice of the managers of some lines to make as many long contracts as possible, sometimes for a year or a season, and secure other freight in advance during a certain month, or within a certain week. The year contracts and the month contracts will probably differ in rate, and they are both likely to differ from the rate current at the time of sailing. The last shipments are contracted for in the light of the then existing market conditions, and may be high or low, according to the abundance or scarcity of freight at the time the vessel is finishing her cargo. If freight is scarce the final rate may be lower than the long contract rates, or if abundant the rate may rise.

This practice of contracting ahead for freight space makes it possible for exporters to calculate closely on transactions. It is common for exporters in Western Europe to quote their prices periodically by cable, basing their calculations on options for freight space secured from some steamship company and options

for a definite exchange rate given by some foreign exchange banker. Contracts based on such calculations hold no surprises and make it possible to quote "c.i. & e." without engaging in a speculative undertaking.

8. *Freight classification.*—No such scientific classification of freight as is found in our railroad tariffs is possible in ocean rate-making. So far as there is any underlying principle applied, it is the principle of "charging what the traffic can bear." Some lines make a rough classification of six classes for measurement-cargo and a special class for express steamers; others segregate the measurement-cargo from the dead-weight cargo and then subdivide each into classes; still another line has a detailed commodity tariff in which articles are dealt with individually.

The principal steamship lines which connect New York with Europe, Australia, South America and the Orient, are gradually developing such commodity tariffs.

9. *Rate quotations.*—The methods followed in quoting rates also differ widely. Rates on some goods are quoted by measurement ton, on others by weight, either long ton or short ton, on others per bushel, per barrel or per bale, while rates on lumber may be quoted at a certain figure per thousand feet.

The rates are usually quoted in sterling, with "primage" to be added, though rates are also quoted in dollars and cents. Primage varies between 5 and

10 per cent. It is said to be a vestige of the old custom of giving the captain and the crew a fat tip to insure careful handling of the goods. Primage now is paid to the company and merely increases the rate. It is being more and more incorporated into the latter.

When quotations are asked for, the steamship company requires detailed information in regard to the character of the goods, the method of packing, the dimensions of the packages, and the weight.

The following table, taken from the "Exporters' Encylopedia," shows in what space the usual export commodities stow:

Ton of 2,240 lbs.	Stows in cubic feet	Ton of 2,240 lbs.	Stows in cubic feet
Apples	90	Lard	65
Bacon	65	Leather	120
Beef	50	Oil cake	46
Cotton pressed	130	Oats	72
Cotton unpressed	260	Oil	60
Cheese	70	Ore	18
Flour in sacks	55	Pork	50
Wheat in bulk	48	Rosin	60
Peas	45	Syrup	44
Corn in bulk	50	Tallow	65
Hops	260	Machinery	65 to 250

After the quotation has been received by the shipper from the steamship company prompt acceptance is necessary, not infrequently by wire. Unless answered promptly, it is void, except in cases where special agreements have been made.

10. *Thru rates.*—The thru bill of lading was discussed in a preceding chapter. In some cases special rates are quoted for goods "intended for export" considerably cheaper than the rates on goods for domestic consumption. Similarly low rates are quoted on some imported articles.

From the railroad's point of view the following reasons have been given for such special rates:

a. Goods intended for export have the choice of many routes, while goods intended for consumption in New York must be landed in New York; goods intended for Liverpool may travel by way of the Gulf, Montreal, Boston, New York or Philadelphia. Keen competition exists between ocean carriers, and this makes it often necessary for railroads to assist the lines serving their terminals in this struggle for freight.

b. Railroads are anxious to develop the territory which supplies them with freight. If in the long run the development of exports increases industry in their section of the country the railways are further benefited.

Import rates on raw materials are often reduced to offset to some extent the tariff on these goods in order to encourage the development of industry. The fact that the bulk of the freight travels to the ports has also contributed to the cutting of the railroad transportation rates on imported goods in consequence of the competition among the carriers to get freight for their "empties."

A particular application of the principles stated in the preceding paragraph is found in the transportation of wheat. Professor W. Z. Ripley states the situation in regard to the exportation of wheat in the following words:

> The United States produces every year a certain quantity of wheat. Of that quantity the greater part is consumed by our own people, but a very large surplus still remains which must be disposed of abroad. This surplus is sold to foreign countries in competition with that from other parts of the world, and it must be sold at the price obtainable in the foreign market. While at times that price may be practically fixed by the United States and while at times it is influenced by the price here, still it must be admitted that ordinarily the foreign market is not entirely determined by our own market.
>
> It has already been said, in the findings of fact, that our wheat must be delivered abroad at the market price there. If the foreign price is less than our market price plus the ordinary cost of transportation, either the price here or the price of transportation must be reduced. Witnesses of experience in this respect gave it as their opinion that market conditions abroad frequently require a low rate in order to dispose of our surplus product; that the price of our surplus wheat establishes the market price in this country; and that, therefore, at times a low rate was of distinct benefit to the farmer, and indeed was necessary to prevent the demoralization of prices.

There are comparatively few special export rates in force. No special rates on classified tariffs are concerned as are quoted on shipments thru New York, Philadelphia and Baltimore.

In the following table prepared by Professor E. R. Johnson some examples of special rates applying to the commodity tariff are given:

COMPARISON OF CORRESPONDING EXPORT AND DOMESTIC RATES IN CENTS PER 100 LBS.

(Effective March 15, 1910, Pennsylvania Railroad)

From Chicago and 100 per cent territory to North Atlantic Seaports

	From Chicago to							
	Boston		New York		Philadel.		Baltimore	
	Domestic	Export	Dom.	Exp.	Dom.	Exp.	Dom.	Exp.
Agricultural Implements Min. C. L. 30,000 lbs..	33	25	30	25	28	23	27	22
Grain Min. C. L. for export, grain ordinarily 90% of car capacity..	22	17½	20	17½	18	16½	17	16
Grain—reshipping from Chicago and common points	18	13	16	13	14	12	13	11½
Iron and steel rails new and cross ties per ton of 2,240 lbs.	510	315	470	315	430	275	430	275

The most complete set of foreign tariffs is found via the Gulf ports. The Gulf Foreign Freight Committee publishes a large number of special export rates, and four distinct import tariffs.

In our trade with Canada and Mexico a limited number of special rates are found. A detailed study of the "differentials" between ports, a subject closely related to the one under discussion, will be found in the Text on "Railway Traffic."

The following comparison of the domestic and import rates on various commodities is quoted by Professor E. R. Johnson:

COMPARISON OF TYPICAL DOMESTIC AND IMPORT RATES IN CENTS PER 100 LBS.

(Effective May 10, 1910, Pennsylvania Railroad)

From New York, Philadelphia, and Baltimore, and points passing thru those cities to Chicago

Commodities	From New York (New York, Brooklyn, Communipaw, Jersey City, and South Amboy)		From Philadelphia (Philadelphia, Chester and Wilmington)		From Baltimore (Baltimore and Sparrow's Point)	
	Domestic	Import	Domestic	Import	Domestic	Import
Crockery and earthenware, Min. C. L. wgt. 24,000 lbs. ..	30	25	28	23	27	22
Fuller's Earth, Min. C. L. 40,000 lbs....	22	14	20	12	19	11
Kaolin Min. C. L. 40,000 lbs.	20	14	18	12	17	11
Hemp.-Min. C. L. 20,000 lbs., Sisal-Min. C. L. 20,000 lbs., Manila-Min. C. L. 30,000 lbs...	30	21	28	19	27	18
Hides, green salted, beef, calf or horse, Min. C. L. 36,000 lbs.	30	25	28	23	27	22
Bar Iron-Min. C. L. 36,000 lbs.	30	21	28	19	27	18
Wood pulp: Min. C. L. 36,000 lbs.	25	25	23	23	22	22
50,000 lbs.	18½		16½			15½

11. *Competition between ports.*—The question of domestic rates and of preferential treatment of import and export shipments is of the utmost importance in determining the development of the ports. Ports compete with each other in service and rates. The

Atlantic ports of the United States are also competitors of the Canadian ports. Rotterdam and Amsterdam complete with Antwerp and Havre, and even with Hamburg in thru freight to Central and Southern Germany. London competes with Liverpool and with other ports of Great Britain.

This competition results in a certain amount of specialization. In England, London is especially an import port, while Liverpool is more of an export port. Cardiff is a coal export center.

In the United States, Baltimore figures higher in the exports of full grain cargoes than either New York or Philadelphia.

The conditions of inland transportation greatly affect ocean shipping. The tendency will be for freight and passengers to seek the shortest route and the elimination of trans-shipment.

Ports in England are always in peril of losing their trans-shipment trade with the Continent by the establishing of more direct connections with the Continental ports.

Cargo which formerly travelled to Liverpool and thence by train to the southern part of England now goes to Southampton from where the rail journey to London is cut short.

Havre and Cherbourg have developed into great passenger ports, and following this development there will undoubtedly be a flow of valuable cargo which will profit by the more direct connections.

12. *Payment of freight.*—It is the universal under-

standing that ocean freights are payable in advance. The cases where freight is sent collect to a foreign destination are rare and are all subject to special agreements. Where goods have been sold f.o.b., the freight charges must nevertheless be paid at this end and must be added to the amount of the invoice.

In the case of a charter party, the arrangement is sometimes made by which freight is "to be paid two-thirds in cash ten days after the final sailing of the vessel from her last port in the United States, and the remainder in cash on delivery of the cargo.

REVIEW

What are the factors determining the ocean freight rates?

Account for the violent fluctuations in rates.

What relation does there exist between line rates and charter rates?

Why is freight classification a desirable thing?

On what basis are shipments for export charged a different rate on the railroads from shipments for domestic consumption?

How does the competition between ports affect the routing of ocean freight?

CHAPTER V

RATE AGREEMENTS

1. *Advantages of stable rates to shipper.*—Well-managed and reliable steamship conections are of the greatest importance to exporters. The service must be regular and fast so that goods contracted for may be delivered on the dates agreed upon and with the least elapsed time. Superior service, moreover, reduces insurance charges and interest losses on goods in transit.

Stability of freight rates also is an important factor in competition; knowledge of what the freight rate will be, say, three months hence enables the exporter to calculate closely. The foreign customer who knows that the cost of delivery is not likely to change is willing to contract for large orders. Under a condition of fluctuating rates he will limit his purchases in the hope of lower prices when freight rates fall.

2. *Advantage of stable rates to carrier.*—The advantages of stable rates to the carrier are clear. The smaller the risk of violent fluctuations in gross receipts, the smaller need be the working capital and cash items. Violent fluctuations over fairly long periods necessitate the setting aside of a large safety fund to help the company over times of low rates.

Tying up money in this way is a great expense. It could better be utilized in improving and expanding the service. But all but the most necessary expansion and improvement have to be postponed when there is no certainty that the rates and the volume of cargo which justify such outlays will continue. Fluctuating rates result in poor service.

3. *Reasonable rates a common interest.*—Besides desiring stable rates, both shipper and carrier are interested in reasonable rates. The shipper wants as low a rate as possible to enable him to reap a large profit and also compete more effectively with firms of other nationalities. For the carrier to hamper shippers by exorbitant charges would be something like killing the goose that lays the golden egg. The interests of shipper and carrier are, therefore, in the long run not antagonistic, however competitive conditions may incline either to place a momentary advantage before the greater benefit of intelligent cooperation.

4. *Evils of unrestricted competition.*—Before a recent hearing of the House Committee on the Merchant Marine and Fisheries, an exporter expressed this view, which is held by many of his class:

"Our experience during more than half a century as shipping and commission merchants in the export and import trade has brought us to the belief that the old adage of 'competition is the life of trade' is a fallacy, and we are firmly convinced that more firms and companies have been driven out of business by

competition and cutting of rates than by combinations."

It would be difficult to mention a field in which competition is more severe than in the shipping field. The severest is that between the large lines, and frequently takes the deadly form of a rate war.

5. *Rate wars.*—A "rate war" is carried on by means of rates which bear no relation whatever to the cost of operation. Ships are sent out at a loss sometimes amounting to $15,000 per trip. The logical result of cut-throat competition is the crushing of the weaker, and the establishing of a virtual monopoly for the stronger competitor.

Such wars also result in unfair discrimination between the users of the lines in consequence of each line trying to tie up the largest shippers by means of long contracts and special privileges and leaving the small and irregular shippers to be dealt with as future circumstances permit, which can only mean paying a higher rate.

6. *Conferences, and agreements.*—The fight is not always carried to a finish. Usually some kind of understanding is reached. The committee on the merchant marine and fisheries of the House of Representatives in a recent investigation came to the conclusion that conferences and agreements between carriers exist in nearly every ocean route, both foreign and domestic, to and from the United States. There was ample evidence presented to justify the convic-

tion that a similar condition prevails in respect to routes outside of the United States.

Agreements may be informal or may be based upon documents. Mr. R. W. Boisevain, general traffic manager of the United Fruit Company, in testifying before the House Committee gave a description of one of these informal agreements:

> We have no agreement or understanding or arrangement with any of the companies named, except in this way, that when we entered the trade we did not try to cut the rates, but came in on an equal basis. It was tacitly understood, without any prearranged agreement, that we would quote the same rates without the necessity of adhering strictly to them, and without the necessity on our part of giving previous notice if we wished to change the rate. But we have no legal agreement or arrangement of any kind. There is a verbal agreement in some cases. Last year when we started to call at two ports on the Colombia line, we did not give notice, but started in and quoted rates. But there has always been a tacit understanding between the Hamburg-American and the Royal Mail that we would stick more or less to their rates.

This statement applied to the relation between the United Fruit Company Line and the Hamburg-American Line, the Atlas Service, the Royal Mail, the Panama Railroad Company and the Atlantic Fruit and Steamship Company, all of whom were competing for traffic from a number of Central American ports. The Hamburg–American and the Royal Mail were the strongest competitors in this service.

The formal agreement may be a conference or a pool. A conference is usually limited to rate maintenance. The pool is a contract to share, on an agreed basis, the freight to be carried, the territory to be served or the profits derived from the business. The character of such a steamship pool may be seen from a concrete example.

7. *Hamburg–American and Royal Mail Pool.*— The Hamburg–American Line and the Royal Mail, though allowing the United Fruit Company to compete as long as no rate cutting took place, were bound by a written agreement. The agreement reads:

Memorandum of agreement entered into this 21st day of February, 1908, between the Hamburg-American Line of Hamburg and the Royal Mail Steam Packet Company of London:

1. It is agreed that commencing from 1st March, 1908, 50 per cent of the freight earned (excluding earnings on refrigerated cargo, bananas and large contract shipments of cement or clinkers for the Isthmian Canal Commission) in their respective services between New York, Jamaica, Colombian ports, Colon, and vice versa, are to be pooled on the basis of 77½ per cent to the Hamburg-American Line and 22½ per cent to the Royal Mail Steam Packet Company.

2. A margin of five per cent on the above proportions to be allowed each company, and if, at the end of the year, it should be found that the actual total earnings of each company have amounted to less than the respective proportions of 72½ per cent by the Hamburg-American Line and 17½ per cent by the Royal Mail Steam Packet Company; then the difference between these minimum proportions and the proportions actually earned shall be adjusted in accordance with the following example:

If Hamburg-American Line shall only have earned, say, 70 per cent of the total earnings of both companies, they shall pay to the Royal Mail Steam Packet Company, one-half of two and one-half per cent of the pooled freight.

On the other hand, if the Royal Mail Steam Packet Company shall only have earned, say, 15 per cent of the total earnings of both companies, they shall pay to the Hamburg-American Line one-half of two and one-half per cent of the pooled freight.

It is also agreed to ascertain, month by month, the quantity of cargo carried by the respective lines with a view to arrange carriage in the agreed proportions, as far as possible.

3. A joint freight tariff to be agreed between the agencies of the companies in New York.

4. The parties further agree to run their passenger steamers between New York and Colon alternately, as far as possible.

5. The Royal Mail Steam Packet Company bind themselves not to extend their services to Haitian ports and Santa Marta, as far as sailings to and from New York are concerned, except that in case of war with the Koninklijke West-Indische Maildienst (Dutch Line) the Royal Mail Steam Packet Company shall have the privilege of calling at Haitian ports served by the Dutch Line.

As regards Port Limon, it is not the intention of the Royal Mail Steam Packet Company to extend their present services to that port, but they reserve the right to call there and in the event of any steamers of the Royal Mail Steam Packet Company requiring to call, it is agreed that the two companies shall meet and endeavor to make such arrangements as will least interfere with the interests of each other.

6. The Hamburg-American Line bind themselves not to call at Trinidad and Granada from and to New York, excepting with their cruising steamers.

7. The service between New York and Puerto Barrios to be reserved to the Hamburg-American Line, but if more than

a four-weekly steamer should be required the Royal Mail Steam Packet Company to have the option to divide alternate steamers for the additional sailings. The Royal Mail Steam Packet Company are in no way to be precluded from calling at Puerto Barrios with their intercolonial steamers.

8. This agreement to be in force for one and one-half years, from 1st March, 1908, and to continue thereafter until terminated by six-months' notice to be given by either party. That is to say, the agreement will be operative for a minimum period of two years.

9. The details of this provisional agreement to be arranged between the representatives of the two companies in New York subject to the confirmation of the head offices in Hamburg and London.

10. This agreement is subject to a further agreement in regard to passage rates between New York and the West Indies, being concluded between the respective companies within three months from the date of this agreement.

HAMBURG-AMERIKE LINIE,
Thomann.
THE ROYAL MAIL STEAM PACKET COMPANY,
R. L. Forbes, Secretary.

This document illustrates nearly every form of agreement which carriers may make.

8. *Divisions of territory.*—Articles 5 and 6 of the preceding pooling agreement give an example of an agreement to divide the territory to be served. This kind of agreement is not very common. The N.D. L. V. Agreement (Nord–Atlantischer Dampfer Linien Verband, or North Atlantic Steamship Lines Association) consisting of the Hamburg–American Line, the Holland–America Line, Red Star Line and the North–German Lloyd, assigned European ports to members of the pool. The Holland–

America Line was limited to the ports of Holland and the French port of Boulogne-sur-Mer; the Hamburg-American Line served the ports of Hamburg, Cuxhaven, Stettin and the French port Havre; the North-German Lloyd had Bremen; the Red Star Line took care of the Belgian ports and the Dutch ports Flushing and Tereuzen.

9. *Alternate sailings.*—Articles 4 and 7 of the pooling agreement provide for alternate sailings by the contracting companies. Cooperation of this sort between lines serving the same territory is common. As a matter of fact, many lines had their origin in the agreement between owners of one or two vessels each to maintain such alternate sailings.

In the agreements between the lines in the American-Brazilian trade the sailings of each line are carefully regulated. The Prince Line, and the Lamport and Holt Line are allowed 24 sailings each from New York, and the same number was formerly allotted to the joint service maintained by the Hamburg-American and North-German Lloyd lines.

10. *Dividing the freight.*—Article 2 of the pooling agreement provides for the arranging of "carriage in the agreed proportion." This is another method employed to establish cooperation between lines serving the same ports. Other cases of this kind are found in the agreements entered into by some of the German lines serving South American ports and by a number of companies operating between Northern European and Mediterranean ports.

11. *Pooling earnings.*—Article 2 also illustrates a pooling of earnings. Of this method other examples may be found in the Baltic Pool, an agreement formerly existing between the Hamburg-American Line, North-German Lloyd, Wilson Line and the Scandinavian-American Line, and a number of companies serving the New York-West African trade.

12. *Fixed rates.*—Article 3 of the agreement quoted provided for a "joint freight tariff." This is the most common point of agreement between lines. Frequently the rates are not actually determined, but a minimum rate is established, depending upon the type of the vessel and the character of the service rendered. As a rule these minimum rates are the rates actually charged. When freight rates advance rapidly, the actual rate may far exceed the minimum.

The pre-war agreement between the Hamburg-American and the Royal Mail Steam Packet Company illustrates, therefore, the following types of agreements: (a) territorial division; (b) alternate sailings; (c) pooling of freight; (d) pooling of earnings; (e) rate fixing.

One important aspect of such agreements is usually the provision made for a defense against outside competition. This may take the form of establishing a fighting fund, of maintaining fighting ships, and of a system of deferred rebates to shippers. The most ruthless of these methods of defense is the use of fighting ships. The agreement given as an illustration is mild in its provisions for warfare.

13. *Defense against competition.*—Article 5 referred to a "case of war with the Koninklijke, West-Indische Maildienst." The provision made for such a declaration of war calls for "the privilege of calling at Haitian ports served by the Dutch line." This is a very mild form of a defensive agreement.

14. *"Fighting ships."*—Sometimes lines or conferences operate one or more ships at a loss on certain lines in order to cripple competition or force competitors to come to terms. The organization of such a "fighting fleet" was shown to exist in the case of six of the German companies by United States Consul General Robert P. Skinner, who thus reported:

> Any account of the methods and practices of the German steamship companies would be incomplete without reference to the Syndikats-Rhederei, a corporation thru which are operated the "fighting ships" of the six largest Hamburg companies engaged in extra-European trade. Nominally the Syndikats-Rhederei is a vessel-owning company with a capital of $1,428,000 engaged in commercial transportation enterprises. Actually it is a defensive corporation owned in respect to its capital shares as follows:
>
> | | |
> |---|---|
> | Hamburg-American Line | $785,400 |
> | Hamburg-South American Line | 166,600 |
> | German Steamship Company | 154,700 |
> | German Australian Steamship Co. | 130,900 |
> | C. Woermann | 119,000 |
> | German East Africa Co. | 71,400 |
> | Total | $1,428,000 |
>
> The above distribution of shares is apportioned with reference to the tonnage of the companies named. This fight-

ing corporation was organized on December 19 and registered on December 23, 1905, and one-half of the original capital was paid in immediately. Four comparatively small and inexpensive ships were purchased, and those with such others as may be chartered from time to time are hired out to the six owners of the company to meet dangerous competition and to drive it away. The fighting ships handle chiefly bulk goods, leaving merchandise which requires prompt transportation to the care of the parent company, which maintains its nominal rates as far as possible, the stress of competition being borne by the fighting ships principally. In times of peace the fighting ships engage in regular trade on time charters.

As this corporation is not one for profit primarily, the investment, in reality, is a new sort of insurance. The Syndikats-Rhederei made no money at the beginning of its history, this fact indicating that the ships were all actively engaged in commercial warfare, but last year (1912) the returns were favorable, as rates, generally speaking, were higher and the regular lines required less expensive support.

The fighting of outside competition is not always as thoroly organized as in this case, but fighting ships are far from being in common. They have been used by the North Atlantic Pool in order to compel the Russian–American Line and the Uranium Steamship Company to abandon its service or to obtain membership in the Association.

15. *Deferred rebates.*—More effective than any other single method is that of deferred rebates. A deferred rebate is a provisional rebate computed on the freight paid during a certain period, usually six months, but not payable until after a six months' period has elapsed during which the shipper has con-

tinued to give exclusive support to the "conference" lines. Such rebates amount frequently to 10 per cent of the freight paid.

The system may, tho not necessarily, lead to abuses. The rebate is usually granted on the same conditions to large and small shipper alike. Sometimes the deferred rebate agreement allows the shipper a certain freedom of action. He may be allowed to ship over designated lines other than the one with which the agreement is made. He may be allowed to ship by any line provided the rate is not lower than the one charged by the contracting line. In a few cases the shipper is free to charter a tramp any time when the tramp rate is a certain margin below the line rate.

On the whole the shipper is satisfied with this system. Mr. Purcell of the firm of Hard, Rand & Company, importers of coffee from Brazil, said before the House Committee: "We stick to the syndicate lines, because they give us the service we want, and we must have that service. We are assured as long as we do business with the syndicate lines that we shall have the tonnage, and we do not have to pay more than 10 cents a bag above what we can charter for."

16. *Combinations in North Atlantic trade.*—The most effective organization exists among the American–North European lines. The International Mercantile Marine Company thru stock ownership controls effectively many of the largest steamship lines,

as follows: the American Line, the Atlantic Transport Line, the Leyland Line, the Red Star Line, the National Steamship Company and the White Star Line. Some stock is also held in the Holland–America Line and a small number of companies operating to New Zealand and Australia.

Shortly after the formation of this strong combine in 1902, two German lines entered into an agreement with the International Mercantile Marine securing a territorial division of traffic and arriving at an understanding concerning rates on freight and passenger traffic. The companies belonging to the I. M. M. enter into separate agreements with steamship companies not in the combine serving the same ports in Europe or America.

The Trans-Atlantic Freight Conference, composed of English lines, limits itself to the control of eastbound traffic. This conference operates in sections known as the Liverpool, the Glasgow, the London and the Manchester conferences.

The American–Atlantic Conference is composed of the Continental lines, while the Atlantic Conference is a conference made up of both Continental and English lines.

The N. D. L. V. (North Atlantic Steamship Lines Association) periodically fixed the amount of freight and passengers to be carried by its members and the rates to be charged. In 1909 the steerage traffic was divided as follows:

Hamburg-American Line	31.38 per cent
Holland-America Line	10.61 per cent
North-German Lloyd	42.46 per cent
Red Star Line	15.55 per cent

Similar steerage passenger agreements exist between the Continental and English lines. Each line undertakes to arrange its service so that the percentage actually carried will correspond closely to the number allotted to it in the agreement.

The Baltic Pool, another strong combination of lines, included the Wilson Line, Hamburg–American Line, North-German Lloyd, and Scandinavian–American Line.

17. *Combinations in Pacific trade.*—The steamship connections between the Orient and both the Atlantic and the Pacific ports of the United States are also controlled by agreements. Some of the strongest are the eastward Atlantic Suez agreement, to which the United States and China–Japan Steamship Company, the American–Asiatic Steamship Company, the American and Manchurian Steamship Line, the American and Oriental Line and Anglo-American Oil Company are the principal signatories. This agreement is controlled by the New York Conference.

The Pacific Coast lines cooperate in the trans-pacific Tariff Bureau which regulates the east and west bound traffic of the Blue Funnel Line, the Great Northern Steamship Company, the Canadian Pacific Railroad Company, Bank Line Ltd., the Pacific Mail Steamship Company and the Japanese lines.

18. *The South American trade.*—The South American steamship lines are controlled by European and American agreements. The principal European conference is the London Conference which regulates sailings and rates of the Hamburg lines, the Prince Line and the Lamport and Holt lines to and from Brazilian ports.

The New York River Plate Agreement regulates the rates on the Prince Line, Lamport and Holt Line, Barber Line, Houston Line, American and Rio Plata Line, to and from the River Plate.

In the trade of the Caribbean Sea, the Royal Mail and the Hamburg–American lines have the pooling agreement both in respect to freight and passengers which was described in the first part of this chapter.

19. *United States Shipping Board.*—An exhaustive study of the shipping situation was made by the House Committee on the Merchant Marine and Fisheries, and this resulted in the enactment of a law in 1916, establishing the United States Shipping Board and doing away with the evils of shipping combinations while allowing them to exist under government supervision.

Under this act all common carriers are forbidden to grant deferred rebates, to use fighting ships, to refuse cargo accommodations to shippers, to discriminate by means of rates or service between shippers, or to give preferential treatment to localities.

All rates must be filed and kept open for public inspection. Carriers also are compelled to file true

copies of any agreements affecting rates and services they may enter into with other carriers or with shippers.

It is declared unlawful for any official of a carrier to disclose any information concerning the nature, any shipment entrusted to it.

The board had hardly been organized when the quality, quantity, destination, consignee or routing of United States entered the European War. During that struggle the attention of the Board was largely taken up by the Emergency Fleet program. Some investigations, however, were carried on even in the midst of the stress of war. These may prove the basis of legislation which will lead to beneficial results.

REVIEW

Explain why both shipper and carrier are interested in stability of rates.

How are rate wars carried on?

Describe some of the steamship combinations in the Atlantic trade.

Analyze the Hamburg-American and Royal Mail Pool.

What are deferred rebates?

Define the purpose of the United States Shipping Board and explain the conditions which led to its establishment.

CHAPTER VI

THE MERCHANT MARINE

1. *How our exports and imports are carried.*—The percentage of exports and imports of the United States carried in vessels of American registry has steadily declined since 1825, indicating that American business has been to an increasing extent dependent upon foreign ships.

The following table shows the percentage of ocean-borne commerce carried in American bottoms for five-year periods:

1825	92	1860	67	1895	12
1830	90	1865	28	1900	9
1835	85	1870	36	1905	12
1840	83	1875	26	1910	9
1845	82	1880	18	1913	10
1850	72	1885	17	1915	14
1855	76	1890	13	1918	22

The National Foreign Trade Council, in a document published by the House of Representatives, makes the following statistical comparison between the shipowning nations:

. Relative Positions of Shipowning Nations on July 1, 1915, Based on Steam Tonnage Owned Per Head of Population. (Includes Only Steamers of 100 Tons or Upward, Except Wooden Vessels on the Great Lakes and Russian Vessels on the Caspian Sea.)

Country	Population	Tonnage owned	Tons per capita	Trade per capita [1]
Norway	2,400,000	1,977,809	0.824	$ 87.50
United Kingdom	45,250,000	19,235,705	.425	114.00
Denmark	2,800,000	803,701	.287	116.00
Holland	6,000,000	1,498,519	.250	419.25
Sweden	5,500,000	1,021,796	.185	68.25
Greece	5,000,000	892,991	.179	23.25
Germany	65,000,000	4,419,167	.068	67.25
United States (sea, lake and Philippines)	92,000,000	4,854,748	.053	40.00
France	40,000,000	1,909,609	.048	70.75
Spain	20,000,000	885,755	.044	20.00
Italy	35,000,000	1,513,631	.043	30.75
Belgium	7,500,000	269,252	.036	216.00
Japan	50,000,000	1,826,068	.036	10.00
Uruguay	1,100,000	36,561	.033	77.25
Chile	3,400,000	100,320	.029	75.00
Argentina	7,250,000	188,771	.026	95.00
Austria-Hungary	50,000,000	1,016,695	.020	23.25
Cuba	2,150,000	35,395	.016	118.50
Brazil	23,600,000	302,513	.013	26.00 [2]
Russia	164,000,000	851,951	.005	8.25

[1] Includes imports retained for domestic consumption and exports of domestic produce or manufacture, and includes imports that are re-exported.

[2] Total value of imports and exports.

These figures show the condition in 1915. They do not show how the relative position of the United States had been declining in importance. The following table shows the condition of the American Merchant Marine in 1890 and 1915 as compared with the total world's tonnage:

	Tonnage of the world			United States		
	1890	1915	Per cent increase	1890	1915	Per cent increase
100 tons and over	22,151,651	49,261,769	122.7	4,424,497	5,892,639	30.9
Total steam	12,985,372	45,729,208	252.2	1,859,088	4,854,748	161.1

These figures are based on Lloyd's Register. According to the Department of Commerce, the total number of United States ships of all types registered, enrolled or licensed was on June 30, 1918, 26,711, or 9,924,518 gross tons. Of this total only 3,986 vessels measuring 3,599,213 gross tons were registered for foreign trade.

2. *History of our merchant marine.*—The causes which contributed to the decline of our shipping were economic and political. A brief statement of its history may serve to make the causes clear.

Shipbuilding in the North American colonies was encouraged by the cheapness of suitable lumber. By 1775 one-third of all ships flying the English flag were American built. American ships carried on an important commerce with the West Indies. After the Revolutionary War the American ships were excluded from English colonies, English shipowners were forbidden to buy American built ships, and many restrictions were placed on the importation in Great Britain of American products in American ships. The activities of the Barbary pirates encouraged by Great Britain contributed toward making the life of the American sailor precarious.

In order to encourage American shipping, the first Congress in 1789 allowed a discount of 10 per cent of tariff duties on imports brought into the country in vessels built and owned by American citizens. The effect of this and other favorable legislation showed in the rapid increase in tonnage from 123,893 tons in 1789 to 438,863 in 1794 and 667,107 in 1800.

3. *Effect of War of 1812.*—The second war with England affected tonnage unfavorably. By 1819 the total American owned tonnage had dropped to 581,230. In the subsequent treaties preferential treatment of American ships was abandoned by our government, but the English reserved their right to regulate trade with the West Indies and with Canada. In 1817, Congress retaliated for the exclusion of American ships from these trades by excluding all foreign ships from coast-wise traffic.

In spite of obstacles the merchant marine increased steadily until it reached 757,998 tons in 1828. Mr. W. L. Marvin quotes a statement of the *London Times* of May, 1827:

> Twelve years of peace, and what is the situation of Great Britain? The shipping interest, the cradle of our navy, is half mined.(?) Our commercial monopoly exists no longer; and thousands of our manufacturers are starving, or seeking redemption in distant lands. We have closed the Western Indies against America from feelings of commercial rivalry. Its active seamen have already engrossed an important branch of our carrying trade to the Eastern Indies. Her starred flag is now conspicuous on every sea, and will soon defy our thunder.

This period represents the most flourishing period of our merchant marine.

4. *Period of decline.*—From then on the American merchant marine has declined in relative importance. The entire withdrawal of governmental support by the Reciprocity Act of 1828, the introduction of iron and steel for the building of ships and finally the substitution of steam for sails all played their part in bringing about the decline. The use of iron gave England the advantage in the cost of building, possessing, as she did, facilities for the production of the metal and workmen trained in the working of it.

To make the situation worse, England granted liberal subsidies to her new steamship lines. The Cunard Line received $425,000 annually. Congress followed this example in a half-hearted and vacillating way. The Ocean Steamship Company in 1845 received a $200,000 subsidy for 20 trips,—far less than the subsidies received by the English competitors. This support was withdrawn shortly before the Civil War. This withdrawal, added to the effect of the Civil War, hastened the decline of our merchant marine. What in 1861 had measured 2,496,894 tons and carried 65 per cent of our ocean-borne commerce was reduced in 1866 to 1,387,756 tons, carrying but 32 per cent. The low water mark was reached in 1898 when the total tonnage under American registry was 726,213, carrying less than nine per cent of our foreign trade.

5. *Merchant marine an aid to trade.*—The question

has been asked: "Why have a merchant marine?" It is often argued that the matter should be settled entirely by free competition. If foreign ships can transport our goods more cheaply than we can ourselves, why should they not be permitted to do so? We can find many other ways of investing money as profitably. Trade, it is argued, does not really follow the flag; it does not flow according to sentiment, so that it makes no difference whether our goods are carried by English, German or American ships.

Practical experience has proved that a merchant marine may be a definite aid to the commerce of a country. Tho the trade does not "follow the flag," ships owned by other nationalities may place many obstacles in the way of exporters of that country.

Since a large number of the most important foreign steamship connections are subsidized by their governments or are controlled by men interested in the development of the industries and commerce of their own country, it occurs not infrequently that American exporters discover that the goods of their foreign competitors are given preference in demand for space over their own. The Federal Trade Commission reports that "American exporters have been informed by British lines running from Canadian ports that Canadian cargoes would be given preference in all demands for space, and that American shipments would only be taken after the requirements of Canadian shippers had been satisfied."

Tho this situation arose in a time of abnormal con-

gestion caused by the war, it serves as an illustration of the effect of foreign control of ocean tonnage. The situation was very much the same in respect to the Japanese steamers:

> The Japanese Government has required Japanese steamship interests to give preference to Japanese demands for cargo space and has kept the freight charges to Japanese on a reasonable basis. By these requirements Japanese firms have been saved much interruption of business and have been able greatly to extend their overseas trade. In the meantime American houses have been unable to obtain cargo space across the Pacific, and thousands of tons of freight have been piled upon docks awaiting shipment.

6. *Interlocking control.*—The fact that foreign export houses and bankers are interested also in steamship lines results in preferential treatment of foreign business. So it has been claimed by a New York export commission house that British bankers, who had invested in the Portland cement industry in England and who also controlled certain steamship lines running to South America, arranged for a rate of transportation sufficiently lower than the rate charged to American exporters to offset the effect of the Brazilian preferential duty which favored America.

7. *Commercial espionage.*—The provision contained in the act establishing the United States Shipping Board in which it was declared unlawful for any official of an ocean carrier to give information in regard to the details of a shipment to the shipper's competitors refers to a practice which, so it is claimed,

forms another strong argument for a national merchant marine. Cases are known where buyers of American goods in foreign lands were visited by salesmen of other nationalities before the goods had arrived. These salesmen "disparaged the American goods and intimated that it took a very long time for a shipment to come from America and that it might never arrive, whereas with their facilities they had could make quick shipment of an article just as good. In this way many foreigners, altho preferring to deal with Americans, were finally induced to take other products." Tho proofs are not available, there is a justifiable suspicion that the foreign steamship had informed the native firms of the American goods awaiting shipment in American harbors.

In how far these cases of discrimination are typical of normal conditions is difficult to say. Some well known steamship men declare that they are not. Mr. P. A. S. Franklin, of the International Mercantile Marine Company, said in an address before the National Foreign Trade Convention in 1914:

> A fallacy which I should like to expose here is the contention that the foreign lines are seeking to throttle American export trade. On the contrary, I am confident the foreign lines are doing everything possible to encourage our trade, which it is, of course, to their best interest to do, even to the apparent detriment of the merchants of the foreign country to which the steamers happen to belong, as the ship-owner has to be supported by, and make a living out of, his particular trade.

Even if this were true, it would not outweigh the

other arguments for the merchant marine, and the evidence points both ways.

8. *Economic conditions.*—One of the great handicaps which American ship-owners have to overcome in their competition with foreign ships is the higher standard of wages.

The United States Steel Corporation operates nine steamers which during the war were transferred from British to American registry. The American law required an addition to the crew of water carriers. This requirement is imposed by the United States Inspection Law and is not found in any other country. It resulted in an increase in the number of the crew of these vessels from 373 to 393, and, combined with the demand for higher wages, an increase in payroll from $12,478 to $17,537, or about 41 per cent.

The higher rate of wages also makes its influence felt in the cost of building ships. Mr. E. S. Cramp, vice-president of the William Cramp and Sons Ship and Engine Building Company, said in 1906 that as far as forgings, steel castings and other materials were concerned, these could be bought more cheaply here than abroad. The only difference in the cost of construction in American yards and foreign yards is the labor.

Labor constitutes approximately two-thirds of the cost of a ship. Admiral Bowles at the same time stated that it costs on the average 50 per cent more to build ships in American yards than in English. Testimony pointing to the same conclusion was produced

before the House Committee on the Merchant Marine and Fisheries: the American built vessel has "cost from 50 to 70 per cent more than the foreign built."

As late as January, 1913, Mr. M. Vowvier, vice-president of W. R. Grace and Company, of New York, stated that the difference between the Philadelphia yards and the British yards amounted to approximately 35 per cent, while in the previous year the difference had been as much as 70 per cent.

The Committee on Merchant Marine points out how this adverse condition is not necessarily fatal:

> This does not mean that American ships will always cost more than British ships. There was a time when American locomotives and railway bridges cost a great deal more than British locomotives and bridges, but that was before locomotive and bridge builders in this country had gathered experience, practiced standardization, and achieved all the economies of large production. Now we manufacture locomotives and bridges and sell them in competition all over the world. When by firm and adequate encouragement to shipping, we develop ship-building also to a manufacturing business, high wages paid to workmen in constant, not spasmodic, employment, will not prevent a steady output of ships as low in cost as they are efficient and economical in operation.

9. *Adverse legislation.*—A law which, whatever its other merits, has certainly affected the competitive position of the American-owned ship is the so-called "Seaman's Law" of March 4, 1915. This law requires an apportionment of able seamen to lifeboats; regulates the size of the crew's quarters; defines the food rations to be served; requires that separate wash-

ing places with shower baths, hot and cold water, be set aside for seamen and firemen; decrees that where the crew exceeds twelve, provision must be made for a hospital, and forbids the employment of Asiatic sailors and firemen and more than a certain number of Asiatic deckhands. The "language clause," as it is called, is said to have been primarily responsible for the withdrawal of the Pacific Mail Steamship Company's vessels from the Trans-Pacific trade. According to a statement prepared by a firm of certified public accountants, the operation of the Seamen's Act resulted in an increase in operating cost on the five ships owned by the Pacific Mail Steamship Company of $495,425.38 per annum.

Too much weight must not be attached to the testimony of this company, however, since it is not at all certain that the withdrawal of these ships was not in fact caused by the law forbidding railroad-owned vessels to use the Panama Canal.

The procedure followed by the United States inspection authorities in having a vessel completely discharged and the fires drawn before inspection, results, it is asserted, in a costly delay which places another unnecessary burden upon American ships. The hydrostatic test of the boilers is said, too, to be both dangerous and costly as compared with the method of inspection used in other countries.

The absence of a load line or Plimsoll line is responsible for a higher rate of insurance on American

vessels notwithstanding the fact that American losses have been very light.

The losses of steam tonnage, according to Lloyd's Register, were (expressed in percentage to total steam tonnage owned):

	1910	1911	1912	1913
Great Britain	1.13	1.08	1.38	1.
United States	.94	.78	.23	1.09
Germany	.80	.73	.91	.83
Norway	2.12	1.60	1.39	1.41
France	1.10	.64	1.03	1.45
Holland	.83	.97	.38	.09
Japan	1.88	1.49	2.05	1.70
Sweden	1.40	1.32	0.93	1.36
Denmark	1.05	.28	.86	.74

It is possible that the higher rate of insurance charged American vessels is not only due to the supposed danger of overloading ships not provided with a load-line, but is determined by experience data based upon particular average claims.

These economic and legislative conditions have prevented Americans from investing in ships of American registry. That American capital has not been backward in investing in ocean transportation as such, is proven by the fact that prior to the European War close upon two million tons of foreign shipping were American-owned. Probably 75 per cent of the International Mercantile Marine is owned by American investors.

It is not probable that the ships of this combine will be transferred to American registry. To do so

would mean to lose the British mail subsidies. The Board of Trade made an agreement in 1902, to run twenty years, that the subsidies shall be continued as long as all the vessels taken over, as well as half the later additions to the fleet, are kept under the British flag. The holding company agreed to keep the original companies alive with a majority of the directors British subjects.

10. *Government aid to shipping.*—These subsidies given to foreign ships by their government constitute one of the reasons why competition has been difficult for American ships.

It will be recalled that the first British transatlantic company, the Cunard line, was supported by a government subsidy, which was increased as the service expanded. In 1839, $425,000 per annum was allowed. This was raised to $735,000 in 1850 and to $850,000 in 1852.

It is not true, however, that English shipping has attained its present powerful position as a result of a policy of subsidies. The subsidies granted by the British government were all limited to mail steamers or to such steamers as were built in conformity with naval requirements and are held absolutely at the disposal of the Admiralty. In both cases high speed is required, which, combined with the small net tonnage resulting from a large amount of waste space, makes operation very expensive.

Great Britain's position as a maritime nation has been attained thru natural causes. The early de-

velopment of the iron industry and the abundance of coal as a return cargo have been among the most powerful causes of its success.

France established a definite merchant marine policy in 1881 and prior to 1901 had paid over $35,000,000 in navigation bounties and more than $15,000,000 in construction bounties. The results being far from satisfactory, the policy was changed in 1901. Between the years 1901 and 1911, more than $75,000,000 was paid in support of shipping, not counting over $58,000,000 paid out for mail service. In spite of this generous support, French tonnage has failed to keep pace with that of other nations.

The former German government had mail contracts with three steamship lines, the Hamburg-American Line, the North-German Lloyd and the German East Africa Line, while indirect bounties were allowed to both the German East Africa Line and the German Levant Line by reduced inland railway rates from places in Germany to points in the Levant and preferential rates were granted by the Turkish and Bulgarian governments on the railroads to the interior stations.

11. *Policy of United States.*—Congress has made several attempts to give American shipping special aid, and more so since the welfare and safety of the country in time of war are seen to be largely dependent upon a strong merchant marine.

The Panama Canal Act of 1912 granted free entry for all material needed in the construction of vessels.

American registry was also allowed to foreign built ships not older than five years. It is interesting to note that two years passed without a single transfer from a foreign flag to the American.

The tariff of 1913 allowed a discount of five per cent in customs duties on goods imported on American vessels, but this clause has been declared non-operative by the Supreme Court.

The United States government pays for the carriage of the mails. The pay is on the mileage basis and differs according to the speed and size of the vessel. Ships of the first class of at least 8,000 tons and 20 knots receive $4.00 a mile, those of the second class of 5,000 tons and 16 knots $2.00, those of the third class of 2,500 tons and 14 knots $1.00, and finally ships of the fourth class of 1500 tons and 12 knots $0.6666 a mile. For the fiscal year 1918, $907,414 was paid for contract ocean mail service.

12. *Effect of war.*—The first effect of war conditions upon the American merchant marine was the passage of the law of August 18, 1914, by which all foreign vessels were admitted to American registry irrespective of their age, provided they satisfied the requirements of the United States inspection service. These ships were really treated more favorably than American built ships since they were allowed to keep their foreign officers and crew. On account of the lower insurance rate and the safety afforded under a neutral flag some two hundred vessels were trans-

ferred to American registry before America entered the war.

13. *United States Shipping Board.*—When the European War broke out the freight rates were high as a result of a general scarcity of tonnage and the high rates of ocean insurance. In July, 1914, the rate on grain from New York to English ports was four to five cents per bushel; in December of the same year it had gone to 16 cents. The demand for tonnage and governmental control of shipping in the United States led to the establishing of the United States Shipping Board in September, 1916. This Board is authorized to have constructed in American shipyards if possible, (otherwise in foreign shipyards) or to purchase, lease or charter vessels suitable for use as navy auxiliaries or army transports. These ships cannot be acquired from nations at war, neither are they permitted to be ships actively engaged in domestic or foreign commerce.

The board may also form a corporation with a capital not to exceed $50,000,000 for the purchase, equipment, lease, and operation of merchant vessels in the commerce of the United States. The Board is given power to investigate complaints regarding ocean freight rates, to pass upon the agreements between carriers among themselves and between carriers and shippers. By the same act the Secretary of the Treasury is empowered to refuse clearance to any vessel laden with merchandise destined for a foreign or a

domestic port when an American citizen has been refused cargo space for any other reason than that the ship is fully loaded or unsuited for the transportation of the freight in question.

14. *Emergency Fleet Corporation.*—Under the act of 1916 the United States Shipping Board, shortly after the entry of the United States into the war, organized the Emergency Fleet Corporation for the purposes authorized in the act. The work of the Corporation was hampered by shortage of labor, transportation difficulties and also the absence of a large enough number of shipyards to produce the ships called for in the construction program. A large number of contracts were let to private yards. Within two days after the President had delegated the power to the Corporation, that is to say, on July 13, 1917, contracts had been let for 425 ships representing a tonnage of approximately 1,860,800, equivalent to two-thirds of our total overseas fleet before the war. Of the stupendous figure called for in the plans of the Shipping Board, approximately 3,000,000 tons had been launched by the time the armistice was signed.

During October, 1918, some 79 completed new ships of 415,908 deadweight tons were added to the American merchant marine. The American yards alone produced during this month 398,108 deadweight tons, thereby surpassing the British record for any month by 102,397 deadweight tons.

The work of the American shipyards has been a

revelation to the world. Foremost among them is the Skinner Yard at Seattle, Washington, which produced during the year 26 ships on a five-way yard, spending between 72 and 84 days on each ship.

The Emergency Fleet Corporation undertook the building of yards and the expansion of existing plants. The Hog Island Shipyard, near Chester, Pa., has 50 ways of the most modern construction. The cost was in excess of $50,000,000.

The record of America in shipbuilding has been well stated by Mr. Edward N. Hurley, chairman of the United States Shipping Board, in a magazine article in 1918.

> Two years ago we had no merchant marine worthy of the name engaged in overseas trade. The American flag flew over a total deadweight tonnage of 2,412,381 tons, but 80 per cent of this was coastwise and Great Lake shipping.
>
> Now we are beginning to fulfil our destiny. We have increased American built tonnage to over 4,000,000 deadweight tons. We have added 118 German and Austrian vessels, requisitioned 86 vessels from the Dutch, and chartered 215 vessels from neutral countries, giving us a total of more than 1,400 ships—a merchant fleet of 7,000,000 tons. We have established a shipbuilding industry that will make us a great maritime nation. When the present program is finished we hope to have about 25,000,000 tons of shipping—3,000 ships.

Comparatively little of our shipping was sunk by submarines and mines during the war. Over this period the United States lost a total of 155 vessels, documented and undocumented, with a total tonnage

of 413,826 tons. Nearly all the American boats sunk were small. Only four measured above 10,000 tons and only twenty-three over 5,000.

15. *Future of American merchant marine.*—The economic causes which were responsible for the decline of our merchant marine have not been changed. Until they are, it is open to question whether our fleet will be able to compete with the fleets of other nations.

It has been suggested that American shipping could be aided by a repeal of the Seaman's Act. The relief would be but slight and the welfare of the American sailor would be sacrificed. Another suggestion has come from Mr. Hurley, who proposes to raise the wages and living conditions of all seafaring men by international agreement.

The question is: What shall we do with our merchant marine now we have created it? It is a difficult problem. If operation under American registry remains unprofitable, no private interest will buy these ships from the government except at a tremendous sacrifice.

It is possible that the maintenance of a merchant marine may be considered by the American people as much a public duty as maintaining highways and bridges. The merchant marine may be looked upon as part of our naval reserve and we may be content to have it operated at cost, or even below cost, making up the deficit out of taxation. Why is it not as

legitimate a national investment to establish freight and passenger lines, to prepare the way for American commercial expansion in sections of the world at present too undeveloped to make regular line service profitable as it is to spend millions in providing irrigation for the arid West? Is the former less necessary than the other?

16. *Possible changes in competitive positions.*— There is still another solution possible. The phenomenal growth of our shipyards and the marvelous record of output may open the way to introducing in the shipbuilding business some of the economies of our large factories. Our yards may yet be able to produce ships more cheaply than foreign yards, for the same reason that our highly paid mechanics produce typewriters, automobiles, sewing machines, locomotives, cheaper and better than the workmen of Europe can produce them.

The "standardized" and the "fabricated" ships are a step in this direction. The Isherwood ship is an innovation which may place the American yard in a more favorable position. Its construction is characterized by the greater distances between the transverse members of the hull than those found in standard ships, while the necessary stiffness is supplied by large numbers of beams running the length of the ship. This makes possible the building of a ship of almost unlimited length without increasing the beam or depth, while the weight of steel per ton of cargo space

is considerably less than customary. This provides a more favorable ratio between deadweight capacity and gross tonnage.

Improvements of this type may favorably affect the cost of construction and of operation of the American built ship. By introducing into our harbors the same element of efficiency which characterizes our industries the cost of operation may be still further reduced. It is reasonable to express the belief that this increased efficiency in building and operation may more than offset the handicap of high wages and stringent sanitary laws.

17. *Canadian shipping.*—The Canadian merchant marine prior to the war was in very much the same condition as the American. Not over 10 per cent of the total overseas commerce was carried in Canadian bottoms. In 1916, Canada had 942,598 tons of which 491,181 represented steam vessels.

The reasons for the undeveloped condition of the Canadian merchant marine are similar to those responsible for the American decline. The Canadian government now gives aid to its merchant marine by means of mail subsidies, which amounted in 1917 to $1,990,582. Subsidies are also granted to companies building and operating dry docks. During the year 1918 the shipbuilding contracts placed by the Imperial Munitions Board totaled $70,000,000. This included the building of 45 steel and 58 wooden ships aggregating 360,000 tons. The Department of Marine has also entered upon a shipbuilding program, having let contracts for 39 ships to total 233,350 tons.

REVIEW

Compare the size of the American Merchant Marine with that of the other maritime nations.

Give a short statement of the history of the American Merchant Marine.

Why is a merchant marine desirable?

What conditions, economic and legislative, have been responsible for the decline of our merchant marine?

How have other nations given aid to their shipping industry?

What has been the effect of war needs upon our merchant marine?

Does the future look bright for the American shipping industry?

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